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**State of Illinois  
Illinois Commerce Commission**

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Cedar Bluff Utilities, Inc.	:	
	:	Docket No. 03-0398
Proposed general increase in sewer rates.	:	
(Tariffs filed on May 2, 2003)	:	
Cedar Bluff Utilities, Inc.	:	
	:	Docket No. 03-0399
Proposed general increase in water rates.	:	
(Tariffs filed on May 2, 2003)	:	
Cedar Bluff Utilities, Inc.	:	
	:	Docket No. 03-0400
Proposed general increase in water rates.	:	
(Tariffs filed on May 2, 2003)	:	
Cedar Bluff Utilities, Inc.	:	
	:	Docket No. 03-0401
Proposed general increase in water rates.	:	
(Tariffs filed on May 2, 2003)	:	
Cedar Bluff Utilities, Inc.	:	
	:	Docket No. 03-0402
Proposed general increase in sewer rates.	:	
(Tariffs filed on May 2, 2003)	:	
		<i>Consolidated</i>

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**INITIAL BRIEF OF THE STAFF  
OF THE ILLINOIS COMMERCE COMMISSION**

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*December 18, 2003*

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**INITIAL BRIEF OF THE STAFF OF  
THE ILLINOIS COMMERCE COMMISSION**

NOW COMES the Staff of the Illinois Commerce Commission (“Staff”), through its attorneys, and files its Initial Brief in the above-captioned proceeding.

**I. INTRODUCTION**

**A. Background**

Pursuant to Article IX of the Public Utilities Act (“PUA” or “Act”), on May, 2 2003, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, and Cherry Hill Water Company, and on May 20, 2003, Northern Hills Water & Sewer Company (“Company” or “Companies”) filed, with the Illinois Commerce Commission (“Commission”), tariff sheets setting forth the Companies proposals to increase base rates for water and sewer service. The tariff filing was accompanied with testimony. The Commission entered a Suspension Order on June 18, 2003 and a Resuspension Order on October 8, 2003.

**B. Procedural History**

Pursuant to proper notice, a Prehearing Conference was held in this matter before duly authorized Administrative Law Judge of the Commission in Chicago, Illinois on July 14, 2003. At the Prehearing Conference, the Judge set a schedule which provided for the filing of Staff and Intervenor direct, Company rebuttal, Staff and Intervenor rebuttal and Company surrebuttal testimonies as well as hearings and Initial

and Reply Briefs. On October 9, 2003, the Judge granted Staff's motion to consolidate the rate cases, as all the Companies are owned by Utilities, Inc. ("UI").

Evidentiary hearings were held at the Commission's Chicago offices on November 18, 2003. Appearances were entered on behalf of UI and Staff. Kristen Weeks and Steve Lubertozzi provided testimony on behalf of UI. Leslie Pugh, Dianna Hathhorn, Michael McNally, Cheri L. Harden, William Johnson, Peter Lazare, and William Marr provided testimony on behalf of Staff. At the conclusion of the November 18, 2003 hearing, the record was marked "Heard and Taken."

### **C. Nature of Operations**

The Companies are wholly owned subsidiaries of Utilities, Inc., operating water and sewer systems in Illinois. Water Service Corporation ("WSC") manages the operation for all of UI's water and wastewater systems, including all Companies filing for rate increases in the instant proceeding. WSC provides management, administration, engineering, accounting, billing, data processing, and regulatory services for the utility systems. WSC's expenses are assigned directly to a utility or distributed to the various companies pursuant to a formula that has been approved by the Commission. (UI Exhibit 1)

### **D. Test Year**

The Company proposed a historical test year of 2002 with known and measurable changes. There were no objections to the Company's proposal.

## **E. Overview of Revenue Requirements**

### **1. Cedar Bluff Utilities, Inc**

Staff's proposed revenue requirement for Cedar Bluff Utilities, Inc. is \$49,316. This is a \$3,212, or 6.97% increase in the revenue requirement at present rates.

### **2. Apple Canyon Utility Company**

Staff's proposed revenue requirement for Apple Canyon Utility Company is \$271,113. This is a \$18,812, or 7.46% increase in the revenue requirement at present rates.

### **3. Charmar Water Company**

Staff recommends that the revenue requirement for Charmar Water Company proposed by the Company in its direct testimony, \$33,247, be granted. (ICC Staff Group Exhibit 2.0) This is a \$12,650 or 61.42% increase in the revenue requirement at present rates.

### **4. Cherry Hill Water Company**

Staff's proposed revenue requirement for Cherry Hills Water Company is \$93,806. This is a \$4,752, or 5.34% increase in the revenue requirement at present rates.

### **5. Northern Hills Water & Sewer Company**

Staff's proposed revenue requirement for the sewer operations of Northern Hills Water & Sewer Company is \$56,481. This is a \$9,858, or 21.14% increase in the revenue requirement at present rates.

Staff's proposed revenue requirement for the water operations of Northern Hills Water & Sewer Company is \$45,344. This is \$4,334 or 10.57% increase in the revenue requirement at present rates.

Schedules that calculate the above listed revenue requirements are presented in the rebuttal testimonies of Staff witnesses Pugh and Hathhorn. (ICC Staff Exhibit 6.0 and 7.0) Additionally, such schedules are attached to this Initial Brief as Appendix A. The schedules in Appendix A have been revised from Staff's rebuttal testimony to reflect updated rate case expense information. This information was filed on December 3, 2003 as a late filed exhibit. The Commission should adopt Appendix A for the Company's revenue requirements.

## **II. Rate Base**

### **A. Uncontested Issues**

#### **1. Adjustment for Pre-1971 Investment Tax Credits**

Staff witness Hathhorn proposed an adjustment to rate base to disallow the unamortized balance from pre-1971 investment tax credits (“ITCs”) (ICC Staff Group Exhibit 1.0). This adjustment decreased rate base for Apple Canyon Utility Company. The pre-1971 ITCs were removed from rate base because these amounts represent funds not provided by investors, and are a source of cost-free capital to the Company. The Company did not contest the adjustment.

#### **2. Adjustment to Accumulated Deferred Income Taxes**

Staff witness Hathhorn proposed adjustments to rate base to correct the presentation of deferred state income taxes (ICC Staff Group Exhibit 1.0). These adjustments decreased rate base for Northern Hills Water & Sewer Company. The Company did not contest the adjustments.

#### **3. Adjustment to Cash Working Capital**

Staff witness Pugh proposed adjustments to cash working capital for the removal of real estate taxes and to incorporate the effects of other Staff-proposed adjustments (Staff Group Exhibit 2.0). These adjustments decrease Cash Working Capital for all the operating companies. The Company did not contest, for the purposes of this proceeding, the cash working capital methodology or the adjustments. The adjustments are updated in Appendix A to Staff Brief, Schedules 6 CB, AC, C, CH, NH-S and NH-W, to reflect Staff’s final revenue requirements.



#### **4. Adjustment to Plant for Unsubstantiated Additions and**

##### **Retirements**

Staff witness Pugh proposed adjustments to reduce the test year plant amount by additions and retirements that could not be verified (Staff Group Exhibit 2.0). These adjustments decrease Plant for Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, and Charmar Water Company. Cedar Bluff Utilities, Inc. test year plant was reduced by the amount of additions and retirements for which the Company could not provide any supporting documentation. Both Apple Canyon Utility Company and Charmar Water Company's test year plant were reduced by the amounts for additions for which the Company could not provide any supporting documentation.

Corresponding adjustments to accumulated depreciation, depreciation expense, and accumulated deferred income taxes were made. The Company did not contest these adjustments.

#### **5. Adjustment to Contributions in Aid of Construction**

Staff witness Pugh proposed adjustments to Contributions in Aid of Construction ("CIAC") to comply with Accounting Instruction 39 in the Uniform System of Accounts for Water Utilities Operating in Illinois (Staff Group Exhibit 2.0). These adjustments increased Accumulated Depreciation and Accumulated Amortization of CIAC for Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, and Charmar Water Company. A one-time "transition" adjustment to implement Accounting Instruction 39 should be recorded for any depreciation on contributed plant not recorded in prior years, and for any impairment of CIAC not previously recognized. Utilities, Inc. began recording amortization of CIAC in 1994. The Cedar Bluff Utilities, Inc. adjustment records the

proper accumulated amortization of CIAC for the period of 1976-1994. The Apple Canyon Utility Company adjustment records the proper accumulated amortization of CIAC for the period of 1992-1994. The Charmar Water Company adjustment records the proper accumulated amortization of CIAC for the period 1990-1994. The Company did not contest the adjustments.

#### **6. Adjustment to Include Customer Advances**

Staff witness Pugh proposed adjustments to include Customer Advances to reflect the amount on Cedar Bluff's trial balance and Apple Canyon's general ledger (Staff Group Exhibit 2.0). These adjustments reduce rate base for Cedar Bluff and Apple Canyon. Because the utility plant constructed with these funds is not financed by debt or equity, ratepayers should not be obligated to pay a return on these plant investments. The Customer Advances balance still has a refund obligation. The Company did not contest the adjustments.

#### **7. Adjustment to WSC for Correction of Error**

Staff witness Pugh proposed an adjustment to correct an error on Schedule C of the Company's initial filing (Staff Group Exhibit 2.0). This adjustment increases Cedar Bluff's rate base by amount of the error. The Company did not contest the adjustment.

#### **8. Adjustment to Plant for Plant Held for Future Use**

Staff witness Pugh proposed an adjustment to plant for plant held for future use ("PHFU") (Staff Group Exhibit 2.0). This adjustment reduces rate base for Apple Canyon. The Company has no imminent use or plans for use of this particular property. This property has already been included in the Company's rate base for more than ten

years and the Company has already earned a return on it for that period of time. The Company did not contest the adjustment.

#### **9. Adjustment to Incorporate Previous Order Adjustments**

Staff witness Pugh proposed adjustments to incorporate previous order adjustments (Staff Group Exhibit 2.0). These adjustments reduce rate base for Apple Canyon and Charmar. The adjustments incorporate adjustments that the Company never made from Apple Canyon's prior order Docket No. 90-0475/92-0401 and Charmar's short form filing with a test year ending 12/31/1989. The Company did not contest the adjustments.

#### **10. Adjustment to Plant for Pro Forma Plant Adjustment**

Staff witness Pugh proposed an adjustment to reduce pro forma plant to reflect the actual cost to complete the project (Staff Group Exhibit 2.0). This adjustment reduces rate base for Apple Canyon. The adjustment reduces rate base to reflect the actual cost of the project that was completed under budget. The Company did not contest the adjustment.

#### **11. Adjustment to Deferred Charges – Tank Maintenance**

Staff witness Pugh proposed adjustments to include deferred tank maintenance charges (Staff Group Exhibit 2.0). These adjustments increase rate base for Apple Canyon and Cherry Hill. The Company did not contest the adjustments.

#### **12. Adjustment to Plant Acquisition Adjustment**

Staff witness Pugh proposed adjustments to remove acquisition adjustments from rate base (Staff Group Exhibit 2.0). These adjustments decrease rate base for

both water and sewer operations for Northern Hills Water and Sewer Company. The Company did not contest the adjustments.

**B. Contested Issues-None**

**III. Operating Revenues and Expenses**

**A. Uncontested Issues**

**1. Adjustment for Add-On Taxes**

Staff witness Hathhorn proposed adjustments to disallow public utility taxes at present rates (ICC Staff Group Exhibit 1.0). These adjustments decreased taxes other than income for all of the operating companies. The gross revenues taxes were removed because they are an add-on charge to customers' bills, are not an actual operating expense of the utility, and therefore, should not be a part of tariffed rates. The Company did not contest the adjustments.

**2. Adjustment to Non-Health Insurance Expense**

Staff witness Hathhorn proposed adjustments to disallow amounts from the Company's pro forma increase to insurance expense for amounts that are not known and measurable (ICC Staff Group Exhibit 1.0). These adjustments decreased general expenses for all of the operating companies. Staff's adjustment used actual 2003 rates for auto, property, and worker's compensation premiums to determine the proper increase to the test-period, rather than the Company's estimated 2004 rates. The Company did not contest the adjustments.

**3. Adjustment to Income Taxes**

Staff witness Hathhorn proposed adjustments to state and federal income tax expense in the test year based on the use of a unitary state income tax rate (ICC Staff

Group Exhibit 1.0). These adjustments decreased state and federal income taxes for Apple Canyon Utility Company, Cherry Hill Water Company, and Northern Hills Water & Sewer Company-Sewer operations. Cedar Bluff Utilities, Inc., Charmar Water Company, and Northern Hills Water & Sewer Company-Water operations adjustments to state and federal income taxes included both increases and decreases. Use of a unitary tax rate is appropriate since the Company pays its Illinois state income tax as a member of a unitary business group. The Company did not contest the adjustments.

#### **4. Adjustment to Health Insurance Expense**

Staff witness Hathhorn proposed adjustments to operating expense to calculate pro forma health insurance expense using 6/30/2003 data (ICC Staff Group Exhibit 1.0). The Company updated its pro forma health insurance expense adjustment through 8/31/2003 data in rebuttal testimony (UI Exhibit 1-R and 2- R). These adjustments decreased general expenses for all of the operating companies. Staff accepted the Company's updated adjustments in ICC Staff Exhibit 7.0, p. 5.

#### **5. Adjustment to Monthly Billing Expense/ Adjustment to Remove Monthly Billing Expense**

Staff witness Hathhorn proposed adjustments to operating expense to reflect updated costs for the Company's change to monthly billing (ICC Staff Group Exhibit 1.0). In rebuttal testimony, the Company stated it no longer intended to change to monthly billing (UI Exhibit 1-R and 2 R). Therefore, Staff removed all the expenses the Company included for monthly billing (ICC Staff Exhibit 7.0, Schedules 7.9). These adjustments decreased general and maintenance expenses for Cedar Bluff Utilities,

Inc., Apple Canyon Utility Company, Charmar Water Company, and Cherry Hill Water Company.

#### **6. Adjustment for New IEPA Fee**

Staff witness Hathhorn proposed adjustments to increase taxes other than income for a new Illinois Environmental Protection Agency fee for sewer companies (ICC Staff Exhibit 7.0, p. 8). These adjustments increased taxes other than income taxes for Cedar Bluff Utilities, Inc. and Northern Hills Water & Sewer Company-Sewer operations. The new National Pollution Discharge Elimination System (“NPDES”) Permit Fee, is effective as of July 1, 2003 and will be assessed annually. The Company did not contest the adjustments.

#### **7. Adjustment to Normalize Maintenance Expense**

Staff witness Hathhorn proposed an adjustment to operating expense to normalize the test year amount of certain maintenance expenses (ICC Staff Group Exhibit 1.0). This adjustment decreased maintenance expense for Apple Canyon Utility Company. The Company explained that the reason for the increased test- year expense amount was the higher number of main breaks in 2002 compared to prior years. Staff’s adjustment averaged the expenses over the 5-year period 1998 through 2002. The Company did not contest the adjustment.

#### **8. Adjustment to Deferred State Income Taxes**

Staff witness Hathhorn proposed an adjustment to operating expense to correct the presentation of deferred state income taxes (ICC Staff Group Exhibit 1.0). This adjustment decreased deferred state income tax expense for Cherry Hill Water Company. The Company did not contest the adjustment.

## **B. Contested Issues**

### **1. Adjustment to Rate Case Expense**

Staff witness Hathhorn proposed adjustments to operating expense to amortize the Company's rate case expense over a five-year period, rather than three years, as proposed by the Company (Appendix A to Staff Brief, Schedules 5 CB, AC, C, CH, NH-S and NH-W). These adjustments decreased general expenses for all of the operating companies. Staff's adjustments also reflect updated information concerning Company labor hours, provided in late-filed exhibit UI Exhibit 3.0. Staff's calculations use the actual remaining hours worked by Company staff, rather than the overstated estimates provided in its surrebuttal, since the Company admitted during cross-examination that there were very few hours to complete the rate case after the hearing (TR p. 41).

The Company's position for a three-year period is unsupportable. The Company incorrectly believes that the Commission has pre-determined a three-year amortization period for rate case expense based upon such determinations in other Utilities, Inc. rate cases (UI Exhibit 1-SR). Staff testified, however, that it is the Commission's practice to determine the rate case amortization period based upon the length of time between prior rate case filings for the utility (TR pp. 68-69). The most recent rate proceedings for the operating subsidiaries in question are as follows:

- Cedar Bluff                      1986 Short Form Proceeding
- Apple Canyon                  Docket No. 92-0401
- Charmar                          1991 Short Form Proceeding
- Cherry Hill                      Docket No. 94-0368
- Northern Hills                  Docket No. 98-0045

(ICC Staff Group Exhibit 1.0 and ICC Staff Exhibit 7.0, pp. 5-6)

The length of time since the last rate case for each operating subsidiary is significant. Thus, the Company's past practices serve to undermine its proposal to use a three-year amortization period in the instant proceeding

The Company argues further that, with the increase in certain of its rate case expenses, it would not be unexpected for the Company to file for a rate case prior to the expenses for this proceeding being fully amortized (UI Exhibit 1-R). However, the risk of unrecovered rate case expense is minimal due to the Commission's current practice to allow a utility to include any unamortized rate case expense from its prior rate case as a component of rate case expense to be amortized in the next rate case (ICC Staff Exhibit 7.0, p. 5, TR p. 66).

Staff's adjustment is reasonable based on prior Commission practices and the record in the instant proceedings, and therefore, should be adopted by the Commission.

## **2. Adjustment to Amortize Insurance Claim Expense**

Staff witness Hathhorn, for Cedar Bluff Utilities Inc. only, disallowed \$4,478 in operating expenses to amortize the Company's insurance claim expense over a five-year period (Staff Exhibit 7.0, p.7). The claim was the result of a sewer back-up that caused damage to the property of three people (ICC Staff Group Exhibit 1.0 and TR pp.69-70). The record shows that this incident was a one-time event, as Cedar Bluff had no other insurance claims from the period 1998 through 2001, nor any new claims in year 2003 (ICC Staff Exhibit 7.0, p. 7).

The test year should reflect a company's normal, expected, recurring level of expenditures for the period in which rates will be in effect. (ICC Staff Exhibit 7.0, p. 7)



The evidence presented by Staff in this case clearly demonstrates that Cedar Bluff will not incur a large insurance claim in each and every year that the sewer rates will be in place. If the insurance claim expense is not amortized, ratepayers will pay for the claim over and over again, until Cedar Bluff revises its rates again. Cedar Bluff is not at risk for under-recovery of insurance expense (TR p. 62).

The Company, rather than address the insurance issue, chooses to confuse the issue by arguing that the test year's operations and maintenance ("O & M") expenses are in line with the five-year average O & M, therefore any adjustment is unreasonable (UI Exhibit 2-SR). This position is overly simplistic and flies in the face of traditional ratemaking (TR p. 58). Staff explains that each test year must be analyzed in detail, and there is nothing in the record about the 1998 through 2001 O & M other than grand totals presented in Company testimony (UI Exhibit 2-SR, TR p. 61). The test year O & M cannot be simply compared to prior year O & M, of which there has been no analysis nor record presented in this case. For example, it is not known whether or not the 1998 through 2001 O & M totals represent normal operations of the Company, or whether they would need to be adjusted prior to using the data for analysis (TR p. 61).

In contrast to the Company's minimal analysis of this issue, Staff performed a detailed variance analysis of the test year O & M, and inquired about significant changes (TR pp. 59-60). Staff investigated possible increases as well as possible decreases to test year O & M in this case. For example, Staff proposed an increase to O & M for a new sewer regulatory fee, an increase the Company did not even request on its own (ICC Staff Exhibit 7.0, p. 8). As a practical matter, though, the results of a variance analysis do result in downward adjustments to O & M, because if an upward

adjustment is necessary, it usually has been previously identified and requested by the Company. Such is the case here, with the Company's requests for increased health care insurance expense, auto, property, and worker's compensation insurance expense, office supplies and other expenses, salaries and wages expenses, and common expenses allocated by Water Services Corp (UI Exhibit 2, Schedule B).

Further, the Company's theory results in illogical conclusions. According to the Company's previously explained theory, there would be no reason to increase O & M for any of these increases, including the new regulatory fee, since the unadjusted test year O & M is greater than the five-year average O & M. This makes no sense, whether for increases or decreases to O & M. The same principles must be used for all issues of the test year, not one theory for increases and another for decreases.

Therefore, as Staff has demonstrated that the insurance claim expense is not a recurring, annual expense of the Company, Staff's adjustment to amortize the claim over a five-year period is reasonable, and should be adopted by the Commission.

#### **IV. Cost of Capital/Rate of Return**

##### **A. Overview**

Two witnesses submitted testimony regarding the Applicants' cost of capital. Ms. Kirsten E. Weeks presented the Companies' proposed capital structures and weighted average costs of capital ("WACC") (UI Exhibit 2). Mr. Michael McNally presented Staff's analysis of the Companies' capital structures and WACC (ICC Staff Group Exhibit 4.0).

Each of the Companies is a 100% equity financed, wholly-owned subsidiary of Utilities, Inc.<sup>1</sup> Therefore, both parties used UI's capital structure and WACC to represent the capital structure and WACC of each of the Applicants. Ultimately, the Companies accepted Staff's analysis regarding the appropriate overall cost of capital for the Companies.

## **B. Capital Structure**

Company witness Weeks presented the Company's proposed capital structure in her direct testimony. The Company proposed using a December 31, 2002 capital structure, comprising 59.76% long-term debt and 40.24% common equity (UI Exhibit 2).

Staff witness McNally's capital structure proposal incorporates the same equity balance as the capital structure proposed by Ms. Weeks. However, Mr. McNally made two adjustments to UI's long-term debt balance. First, he included current maturities in the calculation of the face amount outstanding. Second, he used the "carrying value" of UI's outstanding long-term debt for the long-term debt balance. Those adjustments produced a capital structure comprising 59.79% long-term debt and 40.21% common equity (ICC Staff Group Exhibit 4.0, pp.3-8).

## **C. Cost of Long-Term Debt**

The Company proposed a 7.24% cost of long-term debt in its initial filing (UI Exhibit 2) Staff made two adjustments to the Company's proposed cost of long-term debt. First, the coupon interest expense for the four outstanding promissory notes was adjusted to reflect their interest rates multiplied by their respective face amounts outstanding. Second, the annual amortization of debt expense was adjusted to reflect straight-line amortization of each issue's December 31, 2002 unamortized debt expense

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<sup>1</sup> Company response to Staff data request MGM 2.02.

balance over its remaining life. Those adjustments resulted in a 7.50% cost of long-term debt. (ICC Staff Group Exhibit 4.0, p. 9.)

#### **D. Cost of Common Equity**

##### **1. Company Witness' proposal**

Company Witness Weeks concluded that the 10.02% cost of equity authorized in Utilities, Inc.'s last case, ICC Docket No. 02-0592, provides a reasonable risk premium relative to her estimate of the Company's embedded cost of debt and to the April 15, 2003 yield on 30-year U.S. Treasury Bonds. Thus, she adopted a 10.02% cost of equity (UI Exhibit 2.0.).

##### **2. Staff Witness McNally's Analysis**

Staff witness Michael McNally estimated the cost of common equity for UI with DCF and risk premium models. DCF and risk premium models cannot be applied directly to UI because its common stock is not market-traded. Therefore, Mr. McNally applied those models to two samples (ICC Staff Group Exhibit 4.0, pp. 9-10.). The first sample comprises nine domestic electric and natural gas distribution utilities selected from the *Standard & Poor's Utility Compustat II* database that had S&P credit ratings of BBB to A ("Utility Sample"). The second sample consists of seven domestic water companies for which sufficient data was available to conduct DCF and risk premium analysis that were not being acquired by another company ("Water Sample").

##### **a. DCF Analysis**

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments. Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the

dividend payments that stock prices embody. The companies in both of Mr. McNally's proxy samples pay dividends quarterly. Therefore, Mr. McNally applied a constant-growth quarterly DCF model (ICC Staff Group Exhibit 4.0, pp. 10-14.).

The DCF methodology requires a growth rate that reflects the expectations of investors. Mr. McNally measured the market-consensus expected growth rates with projections published by IBES and Zacks. The growth rate estimates were combined with the closing stock prices and dividend data as of August 20, 2003. Based on this growth, stock price, and dividend data, Mr. McNally's DCF estimates of the cost of common equity were 9.68% for the Utility Sample and 10.02% for the Water Sample (ICC Staff Group Exhibit 4.0, p. 14.).

#### **b. Risk Premium Analysis**

According to financial theory, the required rate of return for a given security equals the risk-free rate of return plus a risk premium associated with that security. The risk premium methodology is consistent with the theory that investors are risk-averse. That is, investors require higher returns to accept greater exposure to risk. In equilibrium, two securities with equal quantities of risk have equal required rates of return. Mr. McNally used a one-factor risk premium model, the Capital Asset Pricing Model, to estimate the cost of common equity. In the CAPM, the risk factor is market risk, which cannot be eliminated through portfolio diversification (ICC Staff Group Exhibit 4.0, pp. 15-25.).

The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market. First, Mr. McNally developed two distinct sample average betas for each of his samples, one based on the Value Line

methodology and the other based on the Merrill Lynch methodology.<sup>2</sup> The average of the two beta estimates for the Utility Sample was 0.57, while the average of the two beta estimates for the Water Sample was 0.50 (ICC Staff Group Exhibit 4.0, pp. 21-24.). Second, Mr. McNally considered two current estimates of the risk-free rate of return: the 0.96% yield on three-month U.S. Treasury bills and the 5.48% yield on thirty-year U.S. Treasury bonds. Both estimates were measured as of August 20, 2003. Forecasts of long-term inflation and the real risk-free rate suggest that the long-term risk-free rate is between 5.7% and 6.2%. Thus, Mr. McNally concluded that the U.S. T-bond yield is currently the superior proxy for the long-term risk-free rate (ICC Staff Group Exhibit 4.0, pp. 19-20.). Finally, to measure the expected rate of return on the market, Mr. McNally conducted a DCF analysis on the firms composing the S&P 500 Index. That analysis estimated that the expected rate of return on the market equals 13.66% (ICC Staff Group Exhibit 4.0, p. 21.). Inputting those three parameters into the CAPM, Mr. McNally calculated cost of common equity estimates of 10.14% for the Utility Sample and 9.57% for the Water Sample (ICC Staff Group Exhibit 4.0, p. 25.).

### **c. Recommendation**

The average of Mr. McNally's DCF and risk premium estimates for the Utility Sample and the Water Sample produced a preliminary cost of equity estimate of 9.85%. To determine the suitability of that cost of equity estimate for UI, Mr. McNally compared the financial ratios that S&P uses in its analysis of investor-owned utilities (collectively,

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<sup>2</sup> The Regression beta methodology is the same as the Merrill Lynch methodology except the Regression beta methodology substitutes (1) total excess return data for the total price change data that the Merrill Lynch methodology uses and (2) the NYSE Composite Index for the S&P500 Index as a proxy for the market return. The former substitution does not significantly affect the beta estimate; however, using the NYSE Composite Index as a proxy for the market return produced higher utility betas than using the S&P500 Index.

the “S&P Benchmark Ratios”) for his two samples to those of UI to assess their relative risk levels. The S&P Benchmark Ratios indicate that UI is slightly riskier than the proxy samples. Thus, Mr. McNally adjusted the 9.85% cost of equity estimate for the two samples upward by 12 basis points to reflect the difference in risk between UI and the proxy samples, which produced a final cost of equity estimate of 9.97% for UI (ICC Staff Group Exhibit 4.0, pp. 26-27.).

Mr. McNally testified that a thorough cost of common equity analysis requires both the application of financial models and the analyst's informed judgment. A cost of common equity recommendation based solely upon judgment is inappropriate. However, because cost of common equity measurement techniques necessarily employ proxies for investor expectations, judgment is necessary to evaluate the results of such analyses. Therefore, Mr. McNally compared the 9.97% cost of equity estimate to the concurrent 6.69% yield on BBB-rated long-term utility bonds. In addition, Mr. McNally determined that the pre-tax interest coverage ratio of 2.38x resulting from his cost of capital recommendation is within the S&P pre-tax interest coverage ratio target range of 1.8x to 2.8x for a BBB credit rating for a utility with a business profile score of 3. Based on those analyses, Mr. McNally concluded that the required rate of return on common equity for UI equals 9.97% (ICC Staff Group Exhibit 4.0, p. 25.).

#### **E. Final Recommendation**

Staff's capital structure and capital component cost recommendations produce an overall cost of capital of 8.49%. The company witnesses' rebuttal testimony did not contest Mr. McNally's cost of capital recommendations. The agreed upon capital structure and WACC is presented below.

Capital Component	Amount	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	\$115,472,241	59.79%	7.50%	4.49%
Common Equity	\$77,650,144	40.21%	9.97%	4.01%
Total Capital	\$193,122,385	100.00%		
<b>Weighted Average Cost of Capital</b>				<b>8.49%</b>

## V. Rate Design

### A. Contested vs. Uncontested Issues

It should be noted that there are no contested rate design issues in this case.

The Company has presented its proposed rates and Staff has accepted some proposals but proposed changes in other areas. The Company, for its part, has accepted Staff's revisions and has not signaled any disagreement with Staff's position on rate design matters

The Staff rate design proposals for the Utilities, Inc. subsidiaries seeking increases should be adopted by the Commission in this proceeding. Staff's proposals include across-the-board increases for base rates as well as selected increases for miscellaneous charges (Staff Group Ex. 13 (Cherry Hill) p. 9; (Northern Hills) p. 10; Staff Group Ex. 12.0 (Apple Canyon) pp. 5 and 10; Staff Group Ex. 5.0 (Charmar) pp. 10-11; and Staff Group Ex. 5.0 (Cedar Bluff) pp. 6-7). Staff's proposals represent the most reasonable approach to rate design given the amount and quality of information provided by the Company in this proceeding.

### B. Base Water Rates

Staff advocates across-the-board increases as the only reasonable approach for base rates, even though the across-the-board approach diverges from the standard Commission policy of basing rates on costs (Staff Group Ex. 13 (Cherry Hill) p. 7;



(Northern Hills) p. 8; Staff Group Ex. 12.0 (Apple Canyon) p. 7 and Staff Group Ex. 5.0 (Charmar) pp. 10-11). As Staff articulated in the above referenced testimony, such divergence is justified and necessary, given the type of information provided to Staff in the instant docket.

The Commission's general preference for cost-based rates is based on the fact that such rates produce efficient and equitable results and because ratepayers are only asked to pay those costs which they cause the utility to incur. It is not possible however, to develop an accurate set of cost-based rates for this proceeding, due to the quality of data provided by Utilities, Inc. (Staff Group Ex. 13 (Cherry Hill) p. 9; (Northern Hills) pp. 10-11; Staff Group Ex. 12.0, (Apple Canyon) p. 10 and Staff Group Ex. 5 (Charmar) pp. 8-10). A cost-based approach would require a breakdown of the Company's proposed revenue requirement into customer-related costs and usage-related costs. Next, customer charges would be developed to recover customer costs while usage charges are set to recover usage costs. A necessary prerequisite for this exercise is the availability of accurate and reliable cost data.

However, as Staff has shown in this proceeding, the Company failed to provide cost data of sufficient quality. The problems with the Company's cost data emerged in the discovery process. Staff's water cost of service "COS" study requires detailed cost and plant information in order to generate rates that are considered cost based. To secure that information, Staff sent data requests which sought the minimum level of cost information necessary to perform a COS study, to each of the subsidiaries requesting rate increases. The subsidiaries responded to Staff's data request by providing information, but in each instance the information was not provided in sufficient detail

and in an appropriate manner that would accommodate the COS study. The deficiencies for individual subsidiaries are as follows.

**1. Apple Canyon Utility Company:**

Staff sent a data request to the Company for the necessary cost information to perform a COS study. The Company responded to Staff's data request by providing information, but the information was not provided in sufficient detail and in an appropriate manner that would accommodate the COS study. For example, Staff's COS study needs to identify the costs associated with billing in order to determine the appropriate levels of customer charges. To determine that figure, Staff asked the Company to identify the level of Customer Account expenses. In its response, the Company failed to identify any Customer Account expenses. Staff disputes this response, given that the Company incurs expenses such as postage, paper, labor and related costs in maintaining customer accounts. Thus, acceptance of the Company's inaccurate response would clearly undermine the accuracy of Staff's COS study. Further, there is no support on the record for the utilization of an alternative Customer Accounts figure. Such lack of data serves to further undermine Staff's effort to develop a COS study for the Company (Staff Group Ex. 12.0, (Apple Canyon) pp. 7-8).

Additional questions arise concerning other account data provided by the Company for Staff's COS study. The Company identified \$299,623 of Plant in Service costs associated with services. However, it did not attribute any Operation and Maintenance expenses to those services. Implicit in the Company's position, is clearly unrealistic presumption that a significant component of Company operations does not require any additional expenditure to be operated or maintained. Similarly, the

Company failed to identify any expenses associated with Transmission and Distribution related supervision, hydrants, and storage. While it is possible that the Company may not have expended costs in some of these categories since the last rate case, the possibility that there were *no* expenditures in *all* the categories mentioned is extremely unlikely (Staff Group Ex. 12.0, (Apple Canyon) p. 8).

## **2. Charmar Water Company:**

Staff sent a data request to the Company for the necessary cost information to perform a COS study. The Company responded to Staff's data request by providing information, but the information was not provided in sufficient detail and in an appropriate manner that would accommodate the COS study. For example, the Staff COS study needs to identify the costs associated with billing in order to determine the appropriate levels of customer charges. To determine that figure, Staff asked the Company to identify the level of Customer Account expenses. In its response, the Company failed to identify any Customer Account expenses. Staff disputes this response, given that the Company incurs expenses such as postage, paper, labor and related costs in maintaining customer accounts. Thus, acceptance of the Company's inaccurate response would clearly undermine the accuracy of Staff's COS study. Further, there is no support on the record for the utilization of an alternative Customer Accounts figure. Such lack of data serves to further undermine Staff's effort to develop a COS study for the Company (Staff Group Ex. 5.0, (Charmar) pp. 8-10).

Additional questions arise concerning other account data provided by the Company for Staff's COS study. The Company identified \$8,074 of Plant in Service costs associated with services. However, it did not attribute any Operation and

Maintenance expenses to those services. Implicit in the Company's position, is clearly unrealistic presumption that a significant component of Company operations does not require any additional expenditure to be operated or maintained. Similarly, the Company failed to identify any expenses associated with Transmission and Distribution related supervision, hydrants, and storage. While it is possible that the Company may not have expended costs in some of these categories since the last rate case, the possibility that there were *no* expenditures in *all* the categories mentioned is extremely unlikely (Staff Group Ex. 5.0, (Charmar) pp. 9-10).

### **3. Cherry Hill Water Company:**

Staff sent a data request to the Company for the necessary cost information to perform a COS study. The Company responded to Staff's data request by providing information, but the information was not provided in sufficient detail and in an appropriate manner that would accommodate the COS study. For example, the Company indicated that it incurs no Customer Accounts expenses. That clearly is not possible because the Company incurs expenses such as postage, paper, labor and related costs in maintaining customer accounts. Also, the Company identified \$24,181 of Plant in Service costs associated with services but did not attribute any Operation and Maintenance expenses to those services. This unrealistically assumes that a significant component does not require any additional expenditure to be operated or maintained. Similarly, the Company failed to identify any expenses associated with Transmission and Distribution related supervision, hydrants, and storage. While it is possible that the Company may not have expended costs in some of these categories

since the last rate case, the possibility that there were *no* expenditures in *all* the categories mentioned is extremely unlikely (Staff Group Ex. 13 (Cherry Hill) pp. 7-8).

#### **4. Northern Hills Water & Sewer Company:**

Staff sent a data request to the Company for the necessary cost information to perform a COS study. The Company responded to Staff's data request by providing information, but the information was not provided in sufficient detail and in an appropriate manner that would accommodate the COS study. For example, the Company indicated that it incurs no Customer Accounts expenses. That clearly is not possible because the Company incurs expenses such as postage, paper, labor and related costs in maintaining customer accounts. Also, the Company identified \$5,383 of Plant in Service costs associated with services but did not attribute any Operation and Maintenance expenses to those services. This unrealistically assumes that a significant component does not require any additional expenditure to be operated or maintained. Similarly, the Company failed to identify any expenses associated with Transmission and Distribution related supervision, hydrants, and storage. While it is possible that the Company may not have expended costs in some of these categories since the last rate case, the possibility that there were *no* expenditures in *all* the categories mentioned is extremely unlikely (Staff Group Ex. 13 (Northern Hills) pp. 8-10).

In the absence of reliable cost information, the most reasonable approach to adopt is an across-the-board equal percentage increase to current rates to meet the revenue requirement adopted in this case. That is because there is no reasonable cost basis for increasing any one charge more or less than another. Instead, all charges should receive a commensurate increase on an equal percentage basis (Staff Group

Ex. 13 (Cherry Hill) p. 9; (Northern Hills) pp. 10-11; Staff Group Ex. 12.0 (Apple Canyon) p. 10).

The Company, for its part, accepts the across-the-board approach to increasing base rates. Therefore, there is no substantive difference between Utilities, Inc. and Staff on this issue.

Staff has explored different options for addressing these problems in the future. Staff has sought to address the problem with the Company's cost data in two ways. First, Staff proposed in its direct case that the Commission order the Company to provide more detailed and accurate cost information in future cases to enable the Commission to achieve its goal of cost-based rates on a going-forward basis (Staff Group Ex. 13 (Cherry Hill) p. 10; (Northern Hills) p. 11; Staff Group Ex. 12.0 (Apple Canyon) p. 9 and Staff Group Ex. 5.0, p. 14). However, the Company responded in Rebuttal that complying with this request would impose a significant cost burden on ratepayers (Weeks Rebuttal 03-0400 p. 6; Lubertoizzi Rebuttal 03-0399, p. 6; Lubertoizzi Rebuttal 03-0401, p. 5; Lubertoizzi Rebuttal 03-0402, p. 4).

In considering the Company argument, Staff determined that it was unable to convincingly establish that the benefits of its proposal would exceed the attendant costs (Staff Ex. 11, p. 3). As a result, Staff decided to no longer pursue its proposal that this detailed information be required in future rate cases (Staff Ex. 11, p. 3).

The decision not to pursue this proposal also factored in the simplicity of the Company's rate structures, which often consist of a single customer charge and usage charge. In these cases, the additional COS information would be used only to set one customer charge and one usage charge (Staff Ex. 11, p. 3).

Instead of requiring the Company to provide more comprehensive information, Staff will use the best available evidence in the future to develop a set of rates that most appropriately protects ratepayer interests (Staff Ex. 11, p. 4).

### **C. Sewer Rates**

Staff proposes to maintain the present rate structure for those sewer utilities (Northern Hills and Cedar Bluff) that are seeking increases in this case. That structure consists of a flat monthly facilities charge, which is developed by dividing base sewer revenues by the number of customer bills. Staff has not developed an alternative cost-based approach because it does not have a sewer COS study.

### **D. Updated Rates**

Staff has recalculated its proposed water and/or sewer rates for each of the subsidiaries seeking increases based on the corresponding Staff-recommended revenue requirements. The rates and bill comparisons are presented in Appendix B of Staff's brief. They are identified as follows:

Cedar Bluff – Rates – Appendix B Schedule 1 CB

Cedar Bluff – Bill Comparison – Appendix B Schedule 2 CB

Apple Canyon – Rates – Appendix B Schedule 1 AC

Apple Canyon – Bill Comparison – Appendix B Schedule 2 AC

Charmar – Rates – Appendix B Schedule 1 C

Charmar – Bill Comparison – Appendix B Schedule 2 C

Cherry Hill – Rates – Appendix B Schedule 1 CH

Cherry Hill – Bill Comparison – Appendix B Schedule 2 CH

Northern Hills Water – Rates – Appendix B Schedule 1 NH-W

Northern Hills Water – Bill Comparison – Appendix B Schedule 2 NH-W

Northern Hills Sewer – Rates & Bill Comparison – Appendix B Schedule 1 NH-S

### **E. Miscellaneous Charges**

The Commission should adopt the Staff proposals for miscellaneous charges. Each of the Companies has developed a set of proposals for miscellaneous charges. Staff has reviewed the proposed charges and developed a reasonable set of miscellaneous charges. These charges are presented and supported on an individual subsidiary basis:

#### **1. Apple Canyon Utility Company:**

##### **a. Late Payment Fees**

Staff witness Johnson made an adjustment to Late Payment Fees in both direct and rebuttal testimony (Staff Group Ex. 12.0, (Apple Canyon) p. 5 and Staff Ex. 9.0, p. 4). His position was that Late Payment Fees are 1 ½% of a customer's bill, therefore if the Company's rates increase, Late Payment Charge revenues should also increase. Mr. Johnson adjusted the Late Payment Fees to reflect approximately the same number of customers paying their bills after the due date, but at Staff's proposed rates (Staff Group Ex. 12.0, (Apple Canyon) p. 5).

The Company did not address this issue in their rebuttal or surrebuttal testimony.

##### **b. Outside Meter Reader Charge**

The Company proposed a new \$40 Outside Meter Reader Charge, in its direct testimony, for any current or new customer who requests that an outside meter reader be installed (ILL.C.C. No. 1, Fourth Revised Sheet No. 1.1).



Staff witness Johnson agreed with the proposed \$40 Outside Meter Reader Charge. He recognized that there must be a cost involved with the outside meter reader and currently a \$40 charge for outside meter reading is applicable in Utilities, Inc. Northern Hills Water & Sewer Company. The \$40 costing associated with the Northern Hills Water & Sewer Company was provided to Commission Staff in Docket No. 98-0045 and was approved by the Commission. Additionally, in a conversation with Company witness Ross, it was agreed upon that two (2) outside meter-reading billing units should be used for the test year in anticipation of outside meter requests (Staff Group Ex. 12.0, (Apple Canyon) p. 15). Mr. Johnson incorporated the two outside meter reading amounts (\$80) into Miscellaneous Revenues in direct and rebuttal testimony (Staff Group Ex. 12.0, (Apple Canyon) Schedule 3.2 and Staff Ex. 9.0, Schedule 9.1 AC).

**c. Non-sufficient Funds Check Charge**

The Company did not propose a change to the Non-Sufficient Funds (“NSF”) Check Charge in its filing for this case. However, Staff witness Johnson proposed moving the NSF Check Charge up to \$10, from the current \$7 charge, for consistency between other Utilities, Inc. Companies and because Staff and the Company recognize that there has been inflation since 1993 when the \$7 NSF Check Charge was put into effect (Staff Group Ex. 12.0, (Apple Canyon) p. 16).

The Company did not object to Staff’s proposal.

## **2. Charmar Water Company**

### **a. Late Payment Fees**

Staff witness Harden made an adjustment to Late Payment Fees in direct testimony (Staff Group Ex. 5.0, p. 6). Her position was that Late Payment Fees are 1 ½% of a customer's bill, therefore if the Company's rates increase, Late Payment Charge revenues should also increase. Ms. Harden adjusted the Late Payment Fees to reflect approximately the same number of customers paying their bills after the due date, but at Staff's proposed rates (Staff Group Ex. 5.0, p. 6).

The Company did not address this issue in their rebuttal or surrebuttal testimony.

### **b. Non-sufficient Funds Check Charge**

The Company did not propose a change to the Non-Sufficient Funds ("NSF") Check Charge in its filing for this case. However, Staff witness Harden proposed moving the NSF Check Charge up to \$10, from the current \$7 charge, for consistency between other Utilities, Inc. Companies and because Staff and the Company recognize that there has been inflation since 1991 when the \$7 NSF Check Charge was put into effect (Staff Group Ex. 5.0, p. 12).

The Company did not object to Staff's proposal.

### **c. New Customer Charge**

The Company did not propose a change to the New Customer Charge in its filing for this case. However, Staff witness Harden proposed moving the New Customer Charge up to \$15, from the current \$12 charge, for consistency between other Utilities, Inc. Companies and because Staff and the Company recognize that there has been

inflation since 1991 when the \$12 New Customer Charge was put into effect (Staff Group Ex. 5.0, p. 12).

The Company did not object to Staff's proposal.

### **3. Cedar Bluff Utilities, Inc.**

#### **a. Late Payment Fees**

Staff witness Harden made an adjustment to Late Payment Fees in direct testimony (Staff Group Ex. 5.0, p. 6). Her position was that Late Payment Fees are 1 ½% of a customer's bill, therefore if the Company's rates increase, Late Payment Charge revenues should also increase. Ms. Harden adjusted the Late Payment Fees to reflect approximately the same number of customers paying their bills after the due date, but at Staff's proposed rates (Staff Group Ex. 5.0, p. 6).

The Company did not address this issue in their rebuttal or surrebuttal testimony.

#### **b. Non-sufficient Funds Check Charge**

The Company did not propose a change to the Non-Sufficient Funds ("NSF") Check Charge in its filing for this case. However, Staff witness Harden proposed moving the NSF Check Charge up to \$10, from the current \$5 charge, for consistency between other Utilities, Inc. Companies and because Staff and the Company recognize that there has been inflation since 1986 when the \$5 NSF Check Charge was put into effect (Staff Group Ex. 5.0, p. 8).

The Company did not object to Staff's proposal.

#### **c. New Customer Charge**

The Company did not propose a change to the New Customer Charge in its filing for this case. However, Staff witness Harden proposed moving the New Customer

Charge up to \$15, from the current \$12 charge, for consistency between other Utilities, Inc. Companies and because Staff and the Company recognize that there has been inflation since 1986 when the \$12 New Customer Charge was put into effect (Staff Group Ex. 5.0, p. 9).

The Company did not object to Staff's proposal.

#### **4. Cherry Hill Water Company:**

Staff accepts the Company's proposed miscellaneous charges for the NSF Check Charge. Staff proposes that the charge be increased from the current \$7 to \$10. The current charge has been in effect since 1995. However, as the Company itself recognizes there has been inflation since 1995 and the proposed charge should be adjusted accordingly as Staff proposes. Furthermore, Staff's proposed charge is consistent with the \$10 NSF Check Charge currently in effect for UI's Northern Hills Water & Sewer Company that was approved by the Commission in Docket No. 98-0045 and the Company has indicated it would not object to a uniform NSF Check Charge across UI operating companies (Staff Group Ex. 13 (Cherry Hill), p. 12).

## **VI. Miscellaneous Tariff Issues**

### **A. "Redistribution": Apple Canyon Utility Company**

Apple Canyon proposed adding what it terms a "Redistribution" section on its tariffs (ILL.C.C. No. 1, Fourth Revised Sheet No. 1.1). The language states:

"If, at the request of and for the convenience of the owner of a premises containing more than one dwelling unit, water is furnished to said premises through a single meter for the purpose of redistribution to the several dwelling units served through such single meter, the customer charge set forth on ILL. C.C. No. 1, Sixth Revised Sheet No. 1, shall be multiplied by the number of dwelling units served. The product thereof shall be the Customer Charge for

such premises. "Redistribution" as used herein, is limited strictly to the practice indicated above, and shall not mean resale of water by any customers."

Staff witness Johnson did not agree with the proposed language (Staff Group Ex. 12.0, (Apple Canyon) p. 14 and Staff Ex. 9.0, p. 5). Mr. Johnson believes the language implies that water service is provided through a single meter, which he interprets to mean that one bill is sent to the owner and therefore one customer charge is applied. He questioned why the customer charge should be multiplied by the number of dwelling units if one bill is sent. The Company incurs no additional costs since only one bill is sent, one meter is installed, and only one service line is installed (Staff Group Ex. 12.0, (Apple Canyon) p. 14). In response to Staff data request WRJ 1.21, which states:

Answer the following questions with respect to proposed ILL. C. C. No. 1, Fifth Revised Sheet No. 1.1, Redistribution:

1. Is more than one bill sent to such premises, or is just one bill sent for all units to pay?
2. Since there is only one meter serving the premise, does that mean there is only one service line or are there more than one service line?

The Company responded:

"Apple Canyon has not had to bill for redistribution, and therefore, has not addressed this issue."

It is Mr. Johnson's position that the Company failed to provide convincing evidence that the proposed language is necessary. Since the Company did not address the redistribution language in its rebuttal testimony, Staff witness Johnson, once again, objected to the language in his rebuttal testimony (Staff Ex. 9.0, p. 5). Mr. Johnson continues to be opposed to the Company's proposed language.

## **B. Billing Cycles**

In Company witness Ross' direct testimony, the Company proposed converting to a monthly billing cycle for Cedar Bluff Utilities, Inc. (Docket No. 03-0398, pp. 6-7), Apple Canyon Utility Company (Docket No. 03-0399, pp. 7-8), Charmar Water Company (Docket No. 03-0400, p. 7), and Cherry Hill Water Company (Docket No. 03-0401, pp. 7-8). Ms. Ross' direct testimony stated that the Company believes that a monthly billing cycle will enable the Company to provide better service to the customers of Cedar Bluff Utilities, Inc. (Docket No. 03-0398, p. 7), Apple Canyon Utility Company (Docket No. 03-0399, pp. 7-8), Charmar Water Company (Docket No. 03-0400, p. 7), and Cherry Hill Water Company (Docket No. 03-0401, pp. 7-8). In direct testimony, Company witness Ross initially stated that no additional employees would be required to handle the increased number of billings for Cedar Bluff Utilities, Inc. (Docket No. 03-0398, p. 7), Apple Canyon Utility Company (Docket No. 03-0399, pp. 7-8), Charmar Water Company (Docket No. 03-0400, p. 7), and Cherry Hill Water Company (Docket No. 03-0401, pp. 7-8).

In direct testimony, Staff witnesses Marr and Johnson stated that this change to a monthly billing cycle is beneficial to the customers and the quality of their service. Staff witnesses Marr and Johnson agreed that benefits resulting from the proposed change to the monthly billing cycle justify the minimal additional cost (Staff Group Ex. 3.0, p. 4, and Staff Group Ex. 12.0, (Apple Canyon) p. 13).

In rebuttal testimony, Company witnesses Weeks and Lubertozzi stated that the Company no longer desires to convert to a monthly billing cycle for Cedar Bluff Utilities, Inc. (Docket No. 03-0398, pp. 3-4), Apple Canyon Utility Company (Docket No. 03-

0399, p. 3-4), Charmar Water Company (Docket No. 03-0400, pp. 3-4), and Cherry Hill Water Company (Docket No. 03-0401, pp. 3-4). Company witnesses Weeks and Lubertoizzi stated that after further review, the Companies found that additional expenses would have to be incurred that they did not foresee in direct testimony. For example, they did not take into account the additional staffing costs associated with administration and meter reading (Cedar Bluff Utilities, Inc. (Docket No. 03-0398, pp. 3-4), Apple Canyon Utility Company (Docket No. 03-0399, pp. 3-4), Charmar Water Company (Docket No. 03-0400, pp. 3-4), and Cherry Hill Water Company (Docket No. 03-0401, pp. 3-4)).

In rebuttal testimony, Staff witness Johnson did not object to the Companies' decision to forego monthly billing. Staff witness Johnson had no objection to the Company continuing its current billing practices if the Company would rather not spend the extra money on monthly billing and customers will not be adversely affected. Staff witness Johnson recommended that all additional costs related to converting to monthly billing be removed from Staff's recommended revenue requirement (Staff Ex. 9.0, p. 2).

### **C. Rules, Regulations, and Conditions of Service**

In Company witness Ross' direct testimony, the Company proposed to update its Rules, Regulations, and Conditions of Service tariffs for Cedar Bluff Utilities, Inc. (Docket No. 03-0398, pp. 7-8), Apple Canyon Utility Company (Docket No. 03-0399, p. 8), Charmar Water Company (Docket No. 03-0400, p. 8), Cherry Hill Water Company (Docket No. 03-0401, p. 8), and Northern Hills Water & Sewer Company (Docket No. 03-0402, p. 7) since they have not been updated in more than 19 years.

Staff witnesses Marr and Johnson reviewed the tariffs and agreed with their content in direct testimony. They recommended that the Commission approve the proposed Rules, Regulations, and Conditions of Service tariffs for Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company, and Northern Hills Water & Sewer Company. Staff witnesses Marr and Johnson stated that these tariffs were compiled previously by Staff, provided to other Illinois regulated utilities, and approved by the Commission in several different docketed proceedings, most recently in Docket No. 01-0050 for Westlake Utilities, Inc. and Docket No. 02-0592 for Del Mar Water Company (Staff Group Ex. 3.0, p. 5, and Staff Group Ex. 12.0, (Apple Canyon) p. 12 and (Northern Hills Water & Sewer) p. 3).

In direct and rebuttal testimony, Staff witnesses Marr and Johnson recommended that the Company indicate the applicable billing period when it files its final tariffs (Staff Group Ex. 3.0, p. 5, Staff Group Ex. 12.0, (Apple Canyon) p. 12, and Staff Ex. 9.0, p. 2).

In direct and rebuttal testimony, Staff witnesses Marr and Johnson further recommended that the Commission Order the Companies to file the Rules, Regulations, and Conditions of Service tariffs (as attached to Company witness Ross' direct testimony), within ten (10) days of the Commission Order, with an effective date of not less than ten (10) working days after the date of filing, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period, if necessary (Staff Group Ex. 3.0, pp. 5-6, Staff Group Ex. 12.0, (Apple Canyon) p. 16 and (Northern Hills Water & Sewer) p. 4, and Staff Ex. 9.0, p. 6).



## **D. Test Year Billing Units**

### **1. Charmar Water Company:**

Staff witness Harden made an adjustment to the test year billing units in direct testimony (Staff Group Ex. 5.0, p. 4). Her position is that billing units should be set at 636 rather than the 624 proposed by the Company. The 636 billing units reflects 53 customers over the 12-month period, which is an accurate count of meters as reflected in the data responses from the Company.

The Company did not address this issue in their rebuttal or surrebuttal testimony.

### **2. Cedar Bluff Utilities, Inc.:**

Staff witness Harden made an adjustment to the test year billing units in direct testimony (Staff Group Ex. 5.0, p. 4). Her position is that billing units should be set at 1,584 rather than the 1,560 proposed by the Company. The 1,584 billing units reflects 132 customers over the 12-month period, which is an accurate count of meters as reflected in the data responses from the Company.

The Company did not address this issue in their rebuttal or surrebuttal testimony.

## **VI Miscellaneous Other Issues**

### **A. Contested Issues**

#### **1. Continuing Property Records (“CPR”)**

Staff witness Pugh states that the Company has not maintained proper continuing property records since the Company was unable to identify costs included in plant (Staff Group Exhibit 2.0). As a result, Staff proposed adjustments to plant for those unsubstantiated plant additions. Staff believes that the Company is not in compliance with 83 Ill. Adm. Codes 605 and 615 and the Final Order in Docket No. 94-

0157 in which the Company agreed to maintain continuing property records using the “Will County Water Company continuing property records” as a model. During Staff’s review, Staff found no evidence that the Company had implemented the property record program.

Staff also believes that the Company’s general ledger is not an adequate substitute for continuing property records and does not contain sufficient information on utility plant. The basic purpose of CPRs is to have at all times a detailed record of the quantities and original cost of plant in service. CPRs also include such items as description, location, purchase date, unit cost, retirements, and depreciation in a continuous ledger with possible subsidiary ledgers. A general ledger contains account balances but does not provide the detail required. During the field audit, the Company was not even able to provide Staff with copies of general ledgers for numerous years for one of the Companies in this proceeding. For the Company to rely strictly on the general ledger as a substitute for continuing property records is inappropriate.

Mr. Lubertozi first states that the Company did comply with the portion of the Final Order in Docket No. 94-0157 where the Company agreed to maintain continuing property records (TR. 30). Mr. Lubertozi then agrees that the Company has not continued to keep property records using the Will County Water as an example as set forth in the Final Order in Docket No. 94-0157 (TR. 31). The Company believes that it is maintaining property records just in a different format than what the Commission ordered in Docket No. 94-0157 (TR. p.31). It is evident that the Company is not in compliance with the findings in the 94-0157 Final Order.

The Company believes that the general ledger and annual report constitute continuing property records (UI Exhibit 1-R, p. 7). It also believes that the supporting documentation provides additional information not already in the general ledger (UI Exhibit 1-SR, p.4). The Company fails to acknowledge that the basic purpose of CPRs is to have at all times a detailed record of the quantities and original cost of plant in service. A company does not have readily available support for the balance of plant recorded on its books when, in order to identify the plant recorded, it must dig through boxes in a warehouse for invoices and it is not able to produce a general ledger from prior years.

The Company believes that the cost of CPRs outweighs their benefit (UI Exhibit 1-SR, p. 6). Mr. Lubertozi states that ...”some previous orders where the Commission found that the cost of keeping these continuing property records would not be beneficial to the customers”...(TR. 29). He does not cite any specific orders at that time. In his rebuttal testimony Mr. Lubertozi did cite Docket Nos. 90-0475/92-0401 (Consolidated) in which the Commission found that “the costs of such a system are likely to outweigh its alleged benefits to its customer” (UI Exhibit 1-R, p.8). He fails to recognize the fact the Docket No. 94-0157 supercedes Docket Nos. 90-0475/92-0401 (Consolidated). Obviously, the Commission feels that the costs of implementing CPRs is necessary or it would not have ordered the Company to do so.

Therefore, Staff recommends the Commission compel the Company to establish and maintain continuing property records in compliance with the Commission’s rules. Staff also recommends that the Company file a report with the Manager of the ICC’s Accounting Department as to the successful implementation of the property record

program. Such a report should be filed 12 months after the final order in this proceeding.

## **B. UnContested Issues**

### **1. Original Cost Determination**

Staff witness Pugh requested the Commission include in this proceeding's order the original cost of plant at December 31, 2002 (Staff Group Exhibit 2.0). The following table reflects the original cost of plant as of December 31, 2002 for the Companies in this proceeding:

<b><u>Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Plant as of 12/31/02</u></b>	<b><u>Source</u></b>
Cedar Bluff Utilities, Inc.	03-0398	\$425,122	ICC Staff Group Exhibit 2.0, Schedule 1.12
Apple Canyon Utility Company	03-0399	\$1,896,723	ICC Staff Group Exhibit 2.0, Schedule 2.9
Charmar Water Company	03-0400	\$101,441	ICC Staff Group Exhibit 2.0, Schedule 1.11
Cherry Hill Water Company	03-0401	\$189,927	ICC Staff Group Exhibit 1.0, Schedule 1.3
Northern Hills Water & Sewer Company	03-0402	\$452,561 – Sewer \$383,429 – Water	ICC Staff Group Exhibit 1.0, Schedule 1.3

The Company did not contest, for the purposes of this proceeding, the recommendation for original cost determinations.

## **VII. CONCLUSION**

For the reasons set for above, Staff respectfully requests that the Commission adopt Staff 's modifications to the Companies proposed tariffs.

Respectfully submitted,

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JOHN J. REICHART  
Staff Attorney

Counsel for the Staff of the  
Illinois Commerce Commission

Cedar Bluff Utilities, Inc.  
Statement of Operating Income with Adjustments  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Appendix A Sch. 2 CB)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 46,104	\$ -	\$ 46,104	\$ 11,270	\$ (392)	\$ 56,982	\$ (7,666)	\$ 49,316
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	46,104	-	46,104	11,270	(392)	56,982	(7,666)	49,316
4	Uncollectible Accounts	4	-	4	1	-	5	(1)	4
5	Maintenance Expenses	25,178	-	25,178	-	-	25,178	-	25,178
6	General Expenses	14,131	(5,912)	8,219	-	-	8,219	-	8,219
7	Depreciation	11,754	(275)	11,479	-	-	11,479	-	11,479
8	Amortization of CIAC	(5,326)	-	(5,326)	-	-	(5,326)	-	(5,326)
9	Taxes Other Than Income	1,312	1,454	2,766	34	(34)	2,766	-	2,766
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	47,053	(4,733)	42,320	35	(34)	42,321	(1)	42,320
17	State Income Tax	(206)	220	14	562	(358)	218	(144)	74
18	Federal Income Tax	(1,194)	1,432	238	3,629	-	3,867	(2,557)	1,310
19	Deferred Taxes and ITCs Net	(193)	-	(193)	-	-	(193)	-	(193)
20	Total Operating Expenses	45,460	(3,081)	42,379	4,226	(392)	46,213	(2,702)	43,511
21	NET OPERATING INCOME	\$ 644	\$ 3,081	\$ 3,725	\$ 7,044	\$ -	\$ 10,769	\$ (4,964)	\$ 5,805
22	Staff Rate Base (Appendix A, Schedule 3 CB, Column (d))								\$ 68,368
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 3,212
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								6.97%

**Cedar Bluff Utilities, Inc.**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Brief)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 CB)	Add-On Taxes (Staff Ex. 2.0 Sch. 2.1CB)	Non-Health Insurance Exp (Staff Ex. 2.0 Sch. 2.2 CB)	Income Taxes (Staff Ex. 2.0 Sch. 2.3 CB)	Health Insurance Exp (Staff Ex. 7.0 Sch. 7.7 CB)	Rate Case Expense (Appendix A Sch. 5 CB)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	-	(153)	-	(576)	(78)	(807)
7	Depreciation	-	(275)	-	-	-	-	-	(275)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	(46)	-	-	-	-	(46)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(275)	(46)	(153)	-	(576)	(78)	(1,128)
16	Before Income Taxes	-	(275)	(46)	(153)	-	(576)	(78)	(1,128)
17	State Income Tax	3	5	1	3	128	11	1	152
18	Federal Income Tax	54	92	15	51	(201)	192	26	229
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	57	(178)	(30)	(99)	(73)	(373)	(51)	(747)
21	NET OPERATING INCOME	\$ (57)	\$ 178	\$ 30	\$ 99	\$ 73	\$ 373	\$ 51	\$ 747

**Cedar Bluff Utilities, Inc.**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Monthly Billing Exp (Staff Ex. 7.0 Sch. 7.9 CB)	Amortize Insurance Claim Expense (Staff Ex. 7.0 Sch. 7.10 CB)	New IEPA Fee (Staff Ex. 7.0 Sch. 7.11 CB)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	(807)	(627)	(4,478)	-	-	-	-	(5,912)
7	Depreciation	(275)	-	-	-	-	-	-	(275)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(46)	-	-	1,500	-	-	-	1,454
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(1,128)	(627)	(4,478)	1,500	-	-	-	(4,733)
17	State Income Tax	152	12	84	(28)	-	-	-	220
18	Federal Income Tax	229	209	1,494	(500)	-	-	-	1,432
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(747)	(406)	(2,900)	972	-	-	-	(3,081)
21	NET OPERATING INCOME	\$ 747	\$ 406	\$ 2,900	\$ (972)	\$ -	\$ -	\$ -	\$ 3,081



**Cedar Bluff Utilities, Inc.**  
**Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Appendix A Sch. 4 CB)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 434,883	\$ (9,761)	\$ 425,122
2	Accumulated Depreciation	(124,045)	(46,993)	(171,038)
3	-	-	-	-
4	Net Plant	310,838	(56,754)	254,084
5	Additions to Rate Base			
6	Water Service Corporation	3,618	1,210	4,828
7	Cash Working Capital	5,078	(621)	4,457
8	-	-	-	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(225,837)	47,837	(178,000)
18	Accumulated Deferred Income Taxes	(11,798)	272	(11,526)
19	Customer Advances for Construction	-	(5,475)	(5,475)
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 81,899</u>	<u>\$ (13,531)</u>	<u>\$ 68,368</u>

**Cedar Bluff Utilities, Inc.**  
**Adjustments to Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Appendix A Sch. 6 CB)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 CB)	CIAC (Staff Ex. 1.0 Sch. 1.9 CB)	Customer Advances for Construction (Staff Ex. 1.0 Sch. 1.10 CB)	WSC for Correction of Error (Staff Ex. 1.0 Sch. 1.11 CB)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ (9,761)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9,761)
2	Accumulated Depreciation	-	844	(47,837)	-	-	-	-	(46,993)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	(8,917)	(47,837)	-	-	-	-	(56,754)
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	1,210	-	-	1,210
7	Cash Working Capital	(621)	-	-	-	-	-	-	(621)
8		-	-	-	-	-	-	-	-
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	47,837	-	-	-	-	47,837
18	Accumulated Deferred Income Taxes	-	272	-	-	-	-	-	272
19	Customer Advances for Construction	-	-	-	(5,475)	-	-	-	(5,475)
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	<u>\$ (621)</u>	<u>\$ (8,645)</u>	<u>\$ -</u>	<u>\$ (5,475)</u>	<u>\$ 1,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,531)</u>

Cedar Bluff Utilities, Inc.  
Adjustment to Rate Case Expense  
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,441	Note 1
2	Rate case expense per Company	<u>1,519</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (78)</u></u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Staff rebuttal	\$ 6,145	ICC Staff Exhibit 7, Schedule 7.8 CB
	Additional Company Labor Since Staff Rebuttal:		
	KEW: 18 hours at \$28/hour	504	Provided by Company in late filed exhibit
	SML: 9 hours at \$62/hour	<u>558</u>	Provided by Company in late filed exhibit
	Total Rate case expense per Staff	<u><u>\$ 7,207</u></u>	
	5-year amortization period	<u><u>\$ 1,441</u></u>	

**Cedar Bluff Utilities, Inc.**  
**Working Capital Adjustment**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 25,178	Schedule 1 CB, col (d), line 5
2	General Expense	8,219	Schedule 1 CB, col (d), line 6
3	Taxes Other Than Income	2,766	Schedule 1 CB, col (d), line 9
4	Less Real Estate Taxes	<u>(505)</u>	Company workpaper [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 35,658	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days/360 days
7	Working Capital Allowance Per Staff	<u>4,457</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	5,078	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (621)</u>	Line 7 less line 8

Apple Canyon Utility Company  
Statement of Operating Income with Adjustments  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Appendix A Sch. 2 AC)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 252,301	\$ -	\$ 252,301	\$ 133,575	\$ (9,735)	\$ 376,141	\$ (105,028)	\$ 271,113
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	252,301	-	252,301	133,575	(9,735)	376,141	(105,028)	271,113
4	Uncollectible Accounts	7,079	-	7,079	3,782	(277)	10,584	(2,972)	7,612
5	Maintenance Expenses	108,844	(16,767)	92,077	-	-	92,077	-	92,077
6	General Expenses	75,271	(10,876)	64,395	-	-	64,395	-	64,395
7	Depreciation	45,326	(166)	45,160	-	-	45,160	-	45,160
8	Amortization of CIAC	(9,878)	-	(9,878)	-	-	(9,878)	-	(9,878)
9	Taxes Other Than Income	14,602	(244)	14,358	401	(401)	14,358	-	14,358
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	241,244	(28,053)	213,191	4,183	(678)	216,696	(2,972)	213,724
17	State Income Tax	(500)	762	262	6,898	(4,640)	2,520	(1,915)	605
18	Federal Income Tax	(9,567)	14,202	4,635	44,563	(4,417)	44,781	(34,048)	10,733
19	Deferred Taxes and ITCs Net	(1,625)	-	(1,625)	-	-	(1,625)	-	(1,625)
20	Total Operating Expenses	229,552	(13,089)	216,463	55,644	(9,735)	262,372	(38,935)	223,437
21	NET OPERATING INCOME	\$ 22,749	\$ 13,089	\$ 35,838	\$ 77,931	\$ -	\$ 113,769	\$ (66,093)	\$ 47,676
22	Staff Rate Base (Appendix A, Schedule 3 AC, Column (d))								\$ 561,553
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 18,812
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								7.46%

**Apple Canyon Utility Company**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Brief)	Add-On Taxes (Sch. 1.7 AC)	Non-Health Insurance (Sch. 1.8 AC)	Income Taxes (Sch. 1.9 AC)	Health Insurance (Sch. 7.7 AC)	Rate Case Expense (Appendix A Sch. 5 AC)	Monthly Billing (Sch. 7.9 AC)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	(4,212)	(4,212)
6	General Expenses	-	-	(2,132)	-	(5,377)	110	(3,477)	(10,876)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(244)	-	-	-	-	-	(244)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(244)	(2,132)	-	(5,377)	110	(7,689)	(15,332)
16	Before Income Taxes	-	(244)	(2,132)	-	(5,377)	110	(7,689)	(15,332)
17	State Income Tax	321	5	40	(86)	101	(2)	144	523
18	Federal Income Tax	5,705	81	711	(861)	1,794	(37)	2,565	9,958
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	6,026	(158)	(1,381)	(947)	(3,482)	71	(4,980)	(4,851)
21	NET OPERATING INCOME	\$ (6,026)	\$ 158	\$ 1,381	\$ 947	\$ 3,482	\$ (71)	\$ 4,980	\$ 4,851

**Apple Canyon Utility Company**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Normalize Maintenance Expense (Sch. 1.13 AC)	Unsubst. Plant (Sch. 2.2 AC)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(4,212)	(12,555)	-	-	-	-	-	(16,767)
6	General Expenses	(10,876)	-	-	-	-	-	-	(10,876)
7	Depreciation	-	-	(166)	-	-	-	-	(166)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(244)	-	-	-	-	-	-	(244)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(15,332)	(12,555)	(166)	-	-	-	-	(28,053)
17	State Income Tax	523	236	3	-	-	-	-	762
18	Federal Income Tax	9,958	4,189	55	-	-	-	-	14,202
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(4,851)	(8,130)	(108)	-	-	-	-	(13,089)
21	NET OPERATING INCOME	\$ 4,851	\$ 8,130	\$ 108	\$ -	\$ -	\$ -	\$ -	\$ 13,089

**Apple Canyon Utility Company**  
**Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Appendix A Sch 4 AC)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 2,075,874	\$ (74,350)	\$ 2,001,524
2	Accumulated Depreciation	(461,236)	(139,472)	(600,708)
3	-	-	-	-
4	Net Plant	1,614,638	(213,822)	1,400,816
5	Additions to Rate Base			
6	Water Service Corporation	45,471	-	45,471
7	Cash Working Capital	24,840	(3,793)	21,047
8	Deferred Tank Maintenance	-	1,942	1,942
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(568,586)	154,386	(414,200)
18	Accumulated Deferred Income Taxes	(44,029)	1,555	(42,474)
19	Unamortized Investment Tax Credits	-	(1,049)	(1,049)
20	Customer Advances for Construction	-	(450,000)	(450,000)
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 1,072,334</u>	<u>\$ (510,781)</u>	<u>\$ 561,553</u>



**Apple Canyon Utility Company**  
**Adjustments to Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Pre-1971 ITCs (Sch. 1.14 AC)	Cash Working Capital (Appendix A Sch. 6 AC)	Unsubstantiated Additions (Sch. 2.2 AC)	CIAC (Sch. 2.3 AC)	Customer Advances for Construction (Sch. 2.4 AC)	Plant Held for Future Use (Sch. 2.5 AC)	Previous Orders (Sch. 2.6 AC)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ (5,068)	\$ -	\$ -	\$ (40,534)	\$ (23,019)	\$ (68,621)
2	Accumulated Depreciation	-	-	397	(17,878)	-	-	(121,991)	(139,472)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	(4,671)	(17,878)	-	(40,534)	(145,010)	(208,093)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(3,793)	-	-	-	-	-	(3,793)
8	Deferred Tank Maintenance	-	-	-	-	-	-	-	-
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	17,878	-	-	136,508	154,386
18	Accumulated Deferred Income Taxes	-	-	119	-	-	-	1,436	1,555
19	Unamortized Investment Tax Credits	(1,049)	-	-	-	-	-	-	(1,049)
20	Customer Advances for Construction	-	-	-	-	(450,000)	-	-	(450,000)
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,049)	\$ (3,793)	\$ (4,552)	\$ -	\$ (450,000)	\$ (40,534)	\$ (7,066)	\$ (506,994)

**Apple Canyon Utility Company**  
**Adjustments to Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Rate Base Adjustments	Pro Forma Plant (Sch. 2.7 AC)	Tank Painting (Sch. 2.8 AC)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Gross Plant in Service	\$ (68,621)	\$ (5,729)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (74,350)
2	Accumulated Depreciation	(139,472)	-	-	-	-	-	-	(139,472)
3	-	-	-	-	-	-	-	-	-
4	Net Plant	(208,093)	(5,729)	-	-	-	-	-	(213,822)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(3,793)	-	-	-	-	-	-	(3,793)
8	Deferred Tank Maintenance	-	-	1,942	-	-	-	-	1,942
9	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	154,386	-	-	-	-	-	-	154,386
18	Accumulated Deferred Income Taxes	1,555	-	-	-	-	-	-	1,555
19	Unamortized Investment Tax Credits	(1,049)	-	-	-	-	-	-	(1,049)
20	Customer Advances for Construction	(450,000)	-	-	-	-	-	-	(450,000)
21	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
23	Rate Base	<u>\$ (506,994)</u>	<u>\$ (5,729)</u>	<u>\$ 1,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (510,781)</u>

Apple Canyon Utility Company  
Adjustment to Rate Case Expense  
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,716	Note 1
2	Rate case expense per Company	<u>1,606</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ 110</u></u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Staff rebuttal	\$ 7,308	ICC Staff Exhibit 7, Schedule 7.8 AC
	Additional Company Labor Since Staff Rebuttal:		
	KEW: 10 hours at \$28/hour	280	Provided by Company in late filed exhibit
	SML: 16 hours at \$62/hour	<u>992</u>	Provided by Company in late filed exhibit
	Total Rate case expense per Staff	<u><u>\$ 8,580</u></u>	
	5-year amortization period	<u><u>\$ 1,716</u></u>	

**Apple Canyon Utility Company**  
**Working Capital Adjustment**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 92,077	Schedule 1 AC, col (d), line 5
2	General Expense	64,395	Schedule 1 AC, col (d), line 6
3	Taxes Other Than Income	14,358	Schedule 1 AC, col (d), line 9
4	Less Property Taxes	<u>(2,452)</u>	Company response to Staff data request DLH-1.02, W/P [f]
5	Operating Expenses Subject to Working Capital Allowance	168,378	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	
7	Working Capital Allowance Per Staff	<u>21,047</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	24,840	Company Schedule C, Column As Adjusted
9	Adjustment	<u><u>\$ (3,793)</u></u>	Line 7 less line 8

**Charmar Water Utility Company**  
**Statement of Operating Income with Adjustments**  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Appendix A Sch. 2 C)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	See Note 1	
								Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 20,597	\$ -	\$ 20,597	\$ 12,650	\$ (439)	\$ 32,808	\$ 2,227	\$ 35,035
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	20,597	-	20,597	12,650	(439)	32,808	2,227	35,035
4	Uncollectible Accounts	2	-	2	1	-	3	-	3
5	Maintenance Expenses	12,546	-	12,546	-	-	12,546	-	12,546
6	General Expenses	4,543	(612)	3,931	-	-	3,931	-	3,931
7	Depreciation	2,420	(114)	2,306	-	-	2,306	-	2,306
8	Amortization of CIAC	(45)	-	(45)	-	-	(45)	-	(45)
9	Taxes Other Than Income	1,017	(21)	996	38	(38)	996	-	996
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	20,483	(747)	19,736	39	(38)	19,737	-	19,737
17	State Income Tax	(191)	127	(64)	631	(401)	166	42	208
18	Federal Income Tax	(4,605)	3,461	(1,144)	4,073	-	2,929	743	3,672
19	Deferred Taxes and ITCs Net	3,301	-	3,301	-	-	3,301	-	3,301
20	Total Operating Expenses	18,988	2,841	21,829	4,743	(439)	26,133	785	26,918
21	NET OPERATING INCOME	\$ 1,609	\$ (2,841)	\$ (1,232)	\$ 7,907	\$ -	\$ 6,675	\$ 1,442	\$ 8,117
22	Staff Rate Base (Appendix A, Schedule 3 C, Column (d))								\$ 95,601
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Resulting Return on Rate Base (Col. (g) Line 21 divided by Col (i) Line 22)						6.98%		
25	Revenue Change (Col. (e), line 3)				\$ 12,650				
26	Percentage Revenue Change (Col. (i), Line 25 divided by Col. (d), Line 3)				61.42%				

**Note 1: The Company should be granted the \$12,650 increase requested as explained in ICC Exhibit 6.0, page 5, lines 49-51.**

**Charmar Water Utility Company**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Brief)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 C)	Add-On Taxes (Staff Ex. 2.0 Sch. 2.1 C)	Non-Health Insurance Exp (Staff Ex. 2.0 Sch. 2.2 C)	Income Taxes (Staff Ex. 2.0 Sch. 2.3 C)	Health Insurance Exp (Staff Ex. 7.0 Sch. 7.7 C)	Rate Case Expense (Appendix A Sch. 5 C)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	-	(62)	-	(321)	(41)	(424)
7	Depreciation	-	(114)	-	-	-	-	-	(114)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	(21)	-	-	-	-	(21)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(114)	(21)	(62)	-	(321)	(41)	(559)
16	Before Income Taxes	-	(114)	(21)	(62)	-	(321)	(41)	(559)
17	State Income Tax	(5)	2	-	1	118	6	1	123
18	Federal Income Tax	(98)	38	7	21	3,309	107	14	3,398
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(103)	(74)	(14)	(40)	3,427	(208)	(26)	2,962
21	NET OPERATING INCOME	\$ 103	\$ 74	\$ 14	\$ 40	\$ (3,427)	\$ 208	\$ 26	\$ (2,962)

**Charmar Water Utility Company**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Monthly Billing Exp (Staff Ex. 7.0 Sch. 7.9 C)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	(424)	(188)	-	-	-	-	-	(612)
7	Depreciation	(114)	-	-	-	-	-	-	(114)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(21)	-	-	-	-	-	-	(21)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(559)	(188)	-	-	-	-	-	(747)
17	State Income Tax	123	4	-	-	-	-	-	127
18	Federal Income Tax	3,398	63	-	-	-	-	-	3,461
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	2,962	(121)	-	-	-	-	-	2,841
21	NET OPERATING INCOME	\$ (2,962)	\$ 121	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,841)

**Charmar Water Utility Company**  
**Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Appendix A Sch. 4 C)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 117,885	\$ (8,433)	\$ 109,452
2	Accumulated Depreciation	(7,306)	1,255	(6,051)
3	-	-	-	-
4	Net Plant	110,579	(7,178)	103,401
5	Additions to Rate Base			
6	Water Service Corporation	1,953	-	1,953
7	Cash Working Capital	2,263	(83)	2,180
8	Accumulated Amortization of CIAC	-	405	405
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(1,807)	180	(1,627)
18	Accumulated Deferred Income Taxes	(11,633)	922	(10,711)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 101,355</u>	<u>\$ (5,754)</u>	<u>\$ 95,601</u>



**Charmar Water Utility Company**  
**Adjustments to Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Appendix A Sch. 6 C)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 C)	CIAC (Staff Ex. 1.0 Sch. 1.9 C)	Previous Order Adjustments (Staff Ex. 1.0 Sch. 1.10 C)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ (5,922)	\$ -	\$ (2,511)	\$ -	\$ -	\$ -	\$ (8,433)
2	Accumulated Depreciation	-	1,022	(180)	413	-	-	-	1,255
3		-	-	-	-	-	-	-	-
4	Net Plant	-	(4,900)	(180)	(2,098)	-	-	-	(7,178)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(83)	-	-	-	-	-	-	(83)
8	Accumulated Amortization of CIAC	-	-	-	405	-	-	-	405
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	180	-	-	-	-	180
18	Accumulated Deferred Income Taxes	-	763	-	159	-	-	-	922
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (83)	\$ (4,137)	\$ -	\$ (1,534)	\$ -	\$ -	\$ -	\$ (5,754)

**Charmar Water Company**  
**Adjustment to Rate Case Expense**  
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,478	Note 1
2	Rate case expense per Company	<u>1,519</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (41)</u></u>	Line 1 - line 2
<b>Note 1:</b>			
	Rate case expense per Staff rebuttal	\$ 6,284	ICC Staff Exhibit 7, Schedule 7.8 C
	Additional Company Labor Since Staff Rebuttal:		
	KEW: 13 hours at \$28/hour	364	Provided by Company in late filed exhibit
	SML: 12 hours at \$62/hour	<u>744</u>	Provided by Company in late filed exhibit
	Total Rate case expense per Staff	<u><u>\$ 7,392</u></u>	
	5-year amortization period	<u><u>\$ 1,478</u></u>	

**Charmar Water Utility Company**  
**Adjustment to Cash Working Capital**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 12,546	Schedule 1 C, col (d), line 5
2	General Expense	3,931	Schedule 1 C, col (d), line 6
3	Taxes Other Than Income	996	Schedule 1 C, col (d), line 9
4	Less Property Taxes	<u>(35)</u>	Company workpaper [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 17,438	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>2,180</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	2,263	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (83)</u>	Line 7 less line 8

Cherry Hill Water Company  
Statement of Operating Income with Adjustments  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Appendix A Sch. 2 CH)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 89,054	\$ -	\$ 89,054	\$ 13,500	\$ (470)	\$ 102,084	\$ (8,278)	\$ 93,806
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	89,054	-	89,054	13,500	(470)	102,084	(8,278)	93,806
4	Uncollectible Accounts	95	-	95	15	(1)	109	(9)	100
5	Maintenance Expenses	43,510	(933)	42,577	-	-	42,577	-	42,577
6	General Expenses	19,321	(3,705)	15,616	-	-	15,616	-	15,616
7	Depreciation	5,520	-	5,520	-	-	5,520	-	5,520
8	Amortization of CIAC	(85)	-	(85)	-	-	(85)	-	(85)
9	Taxes Other Than Income	10,973	(89)	10,884	41	(41)	10,884	-	10,884
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	79,334	(4,727)	74,607	56	(42)	74,621	(9)	74,612
17	State Income Tax	130	(19)	111	672	(428)	355	(155)	200
18	Federal Income Tax	1,276	695	1,971	4,343	(1)	6,313	(2,759)	3,554
19	Deferred Taxes and ITCs Net	(613)	(94)	(707)	-	-	(707)	-	(707)
20	Total Operating Expenses	80,127	(4,145)	75,982	5,071	(470)	80,582	(2,923)	77,659
21	NET OPERATING INCOME	\$ 8,927	\$ 4,145	\$ 13,072	\$ 8,429	\$ 0	\$ 21,501	\$ (5,355)	\$ 16,146
22	Staff Rate Base (Appendix A, Schedule 3 CH, Column (d))								\$ 190,184
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 4,752
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								5.34%

**Cherry Hill Water Company**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Brief)	Add-On Taxes (Sch. 1.7 CH)	Non-Health Insurance (Sch. 1.8 CH)	Income Taxes (Sch. 1.9 CH)	Health Insurance (Sch. 7.7 CH)	Rate Case Expense (Appendix A (Sch. 5 CH)	Monthly Billing (Sch. 7.9 CH)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	(933)	(933)
6	General Expenses	-	-	(897)	-	(1,670)	(20)	(1,118)	(3,705)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(89)	-	-	-	-	-	(89)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(89)	(897)	-	(1,670)	(20)	(2,051)	(4,727)
16	Before Income Taxes	-	(89)	(897)	-	(1,670)	(20)	(2,051)	(4,727)
17	State Income Tax	(23)	2	17	(84)	31	-	38	(19)
18	Federal Income Tax	(416)	30	299	(466)	557	7	684	695
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(439)	(57)	(581)	(550)	(1,082)	(13)	(1,329)	(4,051)
21	NET OPERATING INCOME	\$ 439	\$ 57	\$ 581	\$ 550	\$ 1,082	\$ 13	\$ 1,329	\$ 4,051

**Cherry Hill Water Company**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Deferred State Income Tax (Sch. 1.13 CH)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(933)	-	-	-	-	-	-	(933)
6	General Expenses	(3,705)	-	-	-	-	-	-	(3,705)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(89)	-	-	-	-	-	-	(89)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(4,727)	-	-	-	-	-	-	(4,727)
17	State Income Tax	(19)	-	-	-	-	-	-	(19)
18	Federal Income Tax	695	-	-	-	-	-	-	695
19	Deferred Taxes and ITCs Net	-	(94)	-	-	-	-	-	(94)
20	Total Operating Expenses	(4,051)	(94)	-	-	-	-	-	(4,145)
21	NET OPERATING INCOME	\$ 4,051	\$ 94	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,145

**Cherry Hill Water Company**  
**Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Appendix A (Sch .4 CH))	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 189,927	\$ -	\$ 189,927
2	Accumulated Depreciation	(10,386)	-	(10,386)
3	-	-	-	-
4	Net Plant	179,541	-	179,541
5	Additions to Rate Base			
6	Water Service Corporation	8,549	-	8,549
7	Cash Working Capital	9,225	(1,582)	7,643
8	Deferred Tank Painting	-	6,929	6,929
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(3,299)	-	(3,299)
18	Accumulated Deferred Income Taxes	(9,179)	-	(9,179)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 184,837</u>	<u>\$ 5,347</u>	<u>\$ 190,184</u>

**Cherry Hill Water Company**  
**Adjustments to Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Appendix A (Sch. 6 CH))	Tank Painting (Sch. 2.2 CH)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(1,582)	-	-	-	-	-	-	(1,582)
8	Deferred Tank Painting	-	6,929	-	-	-	-	-	6,929
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	-	-	-	-	-	-	-	-
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,582)	\$ 6,929	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,347



Cherry Hill Water Company  
Adjustment to Rate Case Expense  
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 1,555	Note 1
2	Rate case expense per Company	<u>1,575</u>	Company workpaper d
3	Staff Proposed Adjustment	<u><u>\$ (20)</u></u>	Line 1 - line 2
 <u>Note 1:</u>			
	Rate case expense per Staff rebuttal	\$ 6,712	ICC Staff Exhibit 7, Schedule 7.8 CH
	Additional Company Labor Since Staff Rebuttal:		
	KEW: 18 hours at \$28/hour	504	Provided by Company in late filed exhibit
	SML: 9 hours at \$62/hour	<u>558</u>	Provided by Company in late filed exhibit
	Total Rate case expense per Staff	<u><u>\$ 7,774</u></u>	
	5-year amortization period	<u><u>\$ 1,555</u></u>	

**Cherry Hill Water Company**  
**Adjustment to Cash Working Capital**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 42,577	Schedule 1 CH, col (d), line 5
2	General Expense	15,616	Schedule 1 CH, col (d), line 6
3	Taxes Other Than Income	10,884	Schedule 1 CH, col (d), line 9
4	Less Property Taxes	<u>(7,931)</u>	Company response to Staff data request DLH-1.02, W/P [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 61,146	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>7,643</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	9,225	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (1,582)</u>	Line 7 less line 8

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Appendix A Sch. 2 NH-S)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 46,623	\$ -	\$ 46,623	\$ 13,520	\$ (470)	\$ 59,673	\$ (3,192)	\$ 56,481
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	46,623	-	46,623	13,520	(470)	59,673	(3,192)	56,481
4	Uncollectible Accounts	117	-	117	34	(1)	150	(8)	142
5	Maintenance Expenses	35,337	-	35,337	-	-	35,337	-	35,337
6	General Expenses	9,192	(1,003)	8,189	-	-	8,189	-	8,189
7	Depreciation	9,269	-	9,269	-	-	9,269	-	9,269
8	Amortization of CIAC	(4,981)	-	(4,981)	-	-	(4,981)	-	(4,981)
9	Taxes Other Than Income	2,412	1,453	3,865	41	(41)	3,865	-	3,865
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	51,346	450	51,796	75	(42)	51,829	(8)	51,821
16	Before Income Taxes								
17	State Income Tax	(433)	(279)	(712)	672	(428)	(468)	(60)	(528)
18	Federal Income Tax	(3,993)	(1,248)	(5,241)	4,343	-	(898)	(1,062)	(1,960)
19	Deferred Taxes and ITCs Net	1,357	-	1,357	-	-	1,357	-	1,357
20	Total Operating Expenses	48,277	(1,077)	47,200	5,090	(470)	51,820	(1,130)	50,690
21	NET OPERATING INCOME	\$ (1,654)	\$ 1,077	\$ (577)	\$ 8,430	\$ -	\$ 7,853	\$ (2,062)	\$ 5,791
22	Staff Rate Base (Appendix A, Schedule 3 NH-S, Column (d))								\$ 68,206
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 9,858
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								21.14%

**Northern Hills Water & Sewer Company-Sewer Operations**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Brief)	Add-On Taxes (Sch. 1.7 NH-S)	Non-Health Insurance (Sch. 1.8 NH-S)	Income Taxes (Sch. 1.9 NH-S)	Health Insurance (Sch. 7.7 NH-S)	Rate Case Expense (Appendix A Sch. 5 NH-S)	New IEPA Fee (Sch. 7.9 NH-S)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	(170)	-	(728)	(105)	-	(1,003)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(47)	-	-	-	-	1,500	1,453
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(47)	(170)	-	(728)	(105)	1,500	450
17	State Income Tax	8	1	3	(279)	14	2	(28)	(279)
18	Federal Income Tax	148	16	57	(1,247)	243	35	(500)	(1,248)
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	156	(30)	(110)	(1,526)	(471)	(68)	972	(1,077)
21	NET OPERATING INCOME	\$ (156)	\$ 30	\$ 110	\$ 1,526	\$ 471	\$ 68	\$ (972)	\$ 1,077

**Northern Hills Water & Sewer Company-Sewer Operations**  
**Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Appendix A Sch 4 NH-S)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 452,561	\$ -	\$ 452,561
2	Accumulated Depreciation	(168,418)	-	(168,418)
3	-	-	-	-
4	Net Plant	284,143	-	284,143
5	Additions to Rate Base			
6	Water Service Corporation	5,403	-	5,403
7	Cash Working Capital	5,868	(134)	5,734
8	Plant Acquisition Adjustment	12,698	(12,698)	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(214,359)	-	(214,359)
18	Accumulated Deferred Income Taxes	(12,670)	(45)	(12,715)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 81,083</u>	<u>\$ (12,877)</u>	<u>\$ 68,206</u>

**Northern Hills Water & Sewer Company-Sewer Operations**  
**Adjustments to Rate Base**  
For the Test Year Ending December 31, 2002

Line No.	Description	Accum. Deferred (Sch. 1.12 NH-S)	Cash Working Capital (Appendix A Sch. 6 NH-S)	Acquisition Adjustment (Sch. 2.2 NH-S)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(134)	-	-	-	-	-	(134)
8	Plant Acquisition Adjustment	-	-	(12,698)	-	-	-	-	(12,698)
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	(45)	-	-	-	-	-	-	(45)
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (45)	\$ (134)	\$ (12,698)	\$ -	\$ -	\$ -	\$ -	\$ (12,877)

**Northern Hills Water & Sewer Company-Sewer Operations**  
**Adjustment to Rate Case Expense**  
**For the Test Year Ending December 31, 2002**

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 822	Note 1
2	Rate case expense per Company	<u>927</u>	Company workpaper c
3	Staff Proposed Adjustment	<u><u>\$ (105)</u></u>	Line 1 - line 2
<b>Note 1:</b>			
	Rate case expense per Staff rebuttal	\$ 6,814	ICC Staff Exhibit 7, Schedule 7.8 NH-S
	Additional Company Labor Since Staff Rebuttal:		
	KEW: 10 hours at \$28/hour	280	Provided by Company in late filed exhibit
	SML: 13 hours at \$62/hour	<u>806</u>	Provided by Company in late filed exhibit
	Total Rate case expense per Staff	<u><u>\$ 7,900</u></u>	
	5-year amortization period	<u><u>\$ 1,580</u></u>	
	Sewer (52%)	<u><u>\$ 822</u></u>	Same Pro Rata Percent Used by Company

**Northern Hills Water & Sewer Company-Sewer Operations**  
**Adjustment to Cash Working Capital**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 35,337	Schedule 1 NH-S, col (d), line 5
2	General Expense	8,189	Schedule 1 NH-S, col (d), line 6
3	Taxes Other Than Income	3,865	Schedule 1 NH-S, col (d), line 9
4	Less Property Taxes	<u>(1,516)</u>	Company response to Staff data request DLH-1.02, W/P [e]
5	Operating Expenses Subject to Working Capital Allowance	\$ 45,875	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>5,734</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	5,868	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (134)</u>	Line 7 less line 8



[illegible]

**Northern Hills Water & Sewer Company-Water Operations**  
**Adjustments to Operating Income**  
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Brief)	Add-On Taxes (Sch. 1.7 NH-W)	Non-Health Insurance (Sch. 1.8 NH-W)	Income Taxes (Sch. 1.9 NH-W)	Health Insurance (Sch. 7.7 NH-W)	Rate Case Expense (Appendix A Sch. 5 NH-W)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	(156)	-	(675)	(169)	-	(1,000)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(42)	-	-	-	-	-	(42)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(42)	(156)	-	(675)	(169)	-	(1,042)
16	Before Income Taxes	-	(42)	(156)	-	(675)	(169)	-	(1,042)
17	State Income Tax	9	1	3	(94)	13	3	-	(65)
18	Federal Income Tax	155	14	52	1,214	225	56	-	1,716
19	Deferred Taxes	-	-	-	-	-	-	-	-
20	Total Operating Expenses	164	(27)	(101)	1,120	(437)	(110)	-	609
21	NET OPERATING INCOME	\$ (164)	\$ 27	\$ 101	\$ (1,120)	\$ 437	\$ 110	\$ -	\$ (609)

## Northern Hills Water & Sewer Company-Water Operations

### Rate Base

For the Test Year Ending December 31, 2002

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Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Appendix A Sch 4 NH-W)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 383,429	\$ -	\$ 383,429
2	Accumulated Depreciation	(115,910)	-	(115,910)
3	-	-	-	-
4	Net Plant	267,519	-	267,519
5	Additions to Rate Base			
6	Water Service Corporation	4,997	-	4,997
7	Cash Working Capital	3,222	(306)	2,916
8	Plant Acquisition Adjustment	15,140	(15,140)	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(140,454)	-	(140,454)
18	Accumulated Deferred Income Taxes	(11,717)	(41)	(11,758)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 138,707</u>	<u>\$ (15,487)</u>	<u>\$ 123,220</u>

# Northern Hills Water & Sewer Company-Water Operations

## Adjustments to Rate Base

For the Test Year Ending December 31, 2002

Line No.	Description	Accum. Deferred (Sch. 1.12 NH-W)	Cash Working Capital (Appendix A Sch. 6 NH-W)	Acquisition Adjustment (Sch. 2.2 NH-W)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(306)	-	-	-	-	-	(306)
8	Plant Acquisition Adjustment	-	-	(15,140)	-	-	-	-	(15,140)
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	(41)	-	-	-	-	-	-	(41)
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (41)	\$ (306)	\$ (15,140)	\$ -	\$ -	\$ -	\$ -	\$ (15,487)

Northern Hills Water & Sewer Company-Water Operations  
Adjustment to Rate Case Expense  
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 758	Note 1
2	Rate case expense per Company	<u>927</u>	Company workpaper c
3	Staff Proposed Adjustment	<u>\$ (169)</u>	Line 1 - line 2
<u>Note 1:</u>			
	Rate case expense per Staff rebuttal	\$ 6,814	ICC Staff Exhibit 7, Schedule 7.8 NH-W
	Additional Company Labor Since Staff Rebuttal:		
	KEW: 10 hours at \$28/hour	280	Provided by Company in late filed exhibit
	SML: 13 hours at \$62/hour	<u>806</u>	Provided by Company in late filed exhibit
	Total Rate case expense per Staff	<u>\$ 7,900</u>	
	5-year amortization period	<u>\$ 1,580</u>	

**Northern Hills Water & Sewer Company-Water Operations**  
**Adjustment to Cash Working Capital**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 15,044	Schedule 1 NH-W, col (d), line 5
2	General Expense	7,500	Schedule 1 NH-W, col (d), line 6
3	Taxes Other Than Income	2,186	Schedule 1 NH-W, col (d), line 9
4	Less Property Taxes	<u>(1,402)</u>	Company response to Staff data request DLH-1.02, W/P [e]
5	Operating Expenses Subject to Working Capital Allowance	\$ 23,328	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>2,916</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	3,222	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (306)</u>	Line 7 less line 8

# RATE DESIGN ANALYSIS

Cedar Bluff Utilities, Inc.  
Docket Nos. 03-0398/0399/0400/0401/0402 Consol.  
Appendix B  
Schedule 1 CB

Cedar Bluff Utilities, Inc.											
	Company Present			Company Proposed			% increase	Staff Proposed			% increase
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present
Monthly Rate											
Residential Sewer	1,560	\$29.40	\$45,864	1,560	\$36.59	\$57,080	24.5%	1,584	\$30.91	\$48,961	5.1%
SUBTOTAL			\$45,864			\$57,080	24.5%			\$48,961	
MISC. OPERATING REV.											
Forfeited Discounts/Late Payment Charges			\$125			\$125	0.0%			\$134	7.2%
New Customer Charge			\$192			\$168	-12.5%			\$210	9.4%
Misc. Service Revenues			\$0			\$0				\$0	
Uncollectible Accounts			\$0			\$0				\$0	
Reconnection Fee			\$0			\$0				\$0	
Non Sufficient Funds (NSF)			\$0			\$0				\$0	
MISC. SUBTOTAL			\$317			\$293	-7.6%			\$344	8.5%
TOTAL OPERATING REVENUE											
			\$46,181			\$57,373	24.2%			\$49,305	6.8%

**CEDAR BLUFF UTILITIES, INC.**  
**TYPICAL RESIDENTIAL BILL COMPARISON**

Cedar Bluff Utilities, Inc.  
Docket Nos. 03-0398/0399/0400/0401/0402 Consol.  
Appendix B  
Schedule 2 CB

LINE NO.			CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1		MONTHLY RATE	\$29.40	\$36.59	\$30.91
2		% INCREASE		24.5%	5.1%



# RATE DESIGN ANALYSIS

Apple Canyon Utility Company  
Docket No. 03-0398/0399/0400/  
0401/0402 Consol.  
Appendix B  
Schedule 1 AC

APPLE CANYON UTILITY COMPANY												
	Company Present			Company Proposed			% increase	Staff Proposed			% increase	
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present	
AVAILABILITY							Rates	Rates				
Residential Nonmetered	23,370	\$5.00	\$116,850	23,370	\$7.15	\$167,096	43.0%	23,370	\$5.49	\$128,301	9.8%	
SUBTOTAL	\$116,850			\$167,096							\$128,301	
FACILITIES CHARGES												
Residential 5/8"	8,424	\$5.00	\$42,120	8,424	\$13.50	\$113,724	170.0%	8,424	\$5.49	\$46,248	9.8%	
Commercial 5/8"	72	\$5.00	\$360	72	\$13.50	\$972	170.0%	72	\$5.49	\$395	9.8%	
Commercial 3/4"	0	\$5.50	\$0	0	\$15.50	\$0		0	\$6.03	\$0	9.6%	
Commercial 1"	30	\$6.00	\$180	30	\$17.50	\$525	191.7%	30	\$6.58	\$197	9.7%	
Commercial 1.5"	24	\$6.50	\$156	24	\$19.00	\$456	192.3%	24	\$7.13	\$171	9.7%	
Commercial 2"	0	\$7.00	\$0	0	\$20.00	\$0	185.7%	0	\$7.68	\$0	9.7%	
Commercial 3"	12	\$7.50	\$90	12	\$22.00	\$264	193.3%	12	\$8.23	\$99	9.7%	
Commercial 4"	0	\$8.00	\$0	0	\$24.00	\$0		0	\$8.78	\$0	9.7%	
Commercial 6"	0	\$8.50	\$0	0	\$26.50	\$0		0	\$9.32	\$0	9.6%	
SUBTOTAL	\$42,906			\$115,941			170.2%				\$47,110	
GALLONAGE CHARGES												
Metered	20,112	\$4.23	\$85,074	20,112	\$5.00	\$100,560	18.2%	20,112	\$4.63	\$93,119	9.5%	
Commercial Metered -	0.00	\$0.00	\$0	0.00		\$0		0.00	\$0.00	\$0		
Vacant & Adjustment						\$0						
SUBTOTAL	\$85,074			\$100,560							\$93,119	
Unreconciled Difference			\$0			\$0				\$0		
SUBTOTAL FACILITIES, GALLONAGE, & AVAILABILITY			\$244,830			\$383,597	56.7%				\$268,530	
MISCELLANEOUS OPERATING REVENUES												
Late Payment Charge	\$1,445			\$1,445			0.0%				\$1,585	
New Customer Charge	\$450			\$450			0.0%				\$450	
Miscellaneous Revenues	\$379			\$379			0.0%				\$459	
Uncollectible Accounts	\$0			\$0							\$0	
Reconnection Fee	\$0			\$0							\$0	
Non Sufficient Funds	\$14			\$14			0.0%				\$20	
MISC. OPERATING REVENUES SUBTOTAL	\$2,288			\$2,288			0.0%				\$2,514	
TOTAL OPERATING REVENUE											\$271,044	
			\$247,118				\$385,885	56.2%				9.7%

**APPLE CANYON UTILITY COMPANY  
TYPICAL RESIDENTIAL BILL COMPARISON**

Docket Nos. 03-0398/0399/0400/  
0401/0402 Consol.  
Appendix B  
Schedule 2 AC

LINE NO.			CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1		FACILITIES CHARGE	\$5.00	\$13.50	\$5.49
2		GALLONAGE CHARGE (PER 1,000 GALLONS)	\$4.23	\$5.00	\$4.63

	USAGE 1,000 GALLONS (A)	CURRENT MONTHLY BILL (B)	COMPANY PROPOSED MONTHLY BILL (C)	DOLLAR INCREASE (D)	PERCENT INCREASE (E)	STAFF PROPOSED MONTHLY BILL (F)	DOLLAR INCREASE (G)	PERCENT INCREASE (F)
3	1	\$9.23	\$18.50	\$9.27	100.4%	\$10.12	\$0.89	9.6%
4*	2	\$13.46	\$23.50	\$10.04	74.6%	\$14.75	\$1.29	9.6%
5	3	\$17.69	\$28.50	\$10.81	61.1%	\$19.38	\$1.69	9.6%
6	6	\$30.38	\$43.50	\$13.12	43.2%	\$33.27	\$2.89	9.5%
7	9	\$43.07	\$58.50	\$15.43	35.8%	\$47.16	\$4.09	9.5%
8	AVAILABILITY CUSTOMER	\$5.00	\$7.15	\$2.15	43.0%	\$5.49	\$0.49	9.8%

**Notes:**

\* Typical monthly residential usage

# RATE DESIGN ANALYSIS

Charmar Water Company  
Docket Nos. 03-0398/0399/0400/0401/0402 Consol.  
Appendix B  
Schedule 1 C

Charmar Water Company											
	Company Present			Company Proposed			% increase	Staff Proposed			% increase
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present
FACILITIES CHARGES											
Residential 5/8"	624	\$6.25	\$3,900	624	\$15.50	\$9,672	148.0%	636	\$10.25	\$6,519	64.0%
SUBTOTAL			\$3,900			\$9,672				\$6,519	
GALLONAGE CHARGES											
Metered	3175	\$5.10	\$16,193	3175	\$7.38	\$23,435	44.7%	3175	\$8.35	\$26,515	63.7%
Vacant & Adjustment						\$0					
SUBTOTAL			\$16,193			\$23,435				\$26,515	
Unreconciled Difference			\$0			\$0				\$0	
SUBTOTAL FACILITIES & GALLONAGE			\$20,093			\$33,107	64.8%			\$33,034	64.4%
MISCELLANEOUS OPERATING REVENUE											
Forfeited Discounts/Late Payment Charges			\$106	\$106			0.0%				\$174 64.2%
New Customer Charge			\$36			\$24	-33.3%			\$30	-16.7%
Misc. Service Revenues			\$0			\$0	0.0%			\$0	
Uncollectible Accounts			\$0			\$0				\$0	
Reconnection Fee			\$0			\$0				\$0	
Non Sufficient Funds (NSF)			\$0			\$0	0.0%			\$0	
MISC. SUBTOTAL			\$142			\$130	-8.5%			\$204	43.7%
TOTAL OPERATING REVENUE			\$20,235	\$33,237			64.3%			\$33,238	64.3%

**CHARMAR WATER COMPANY**  
**TYPICAL RESIDENTIAL BILL COMPARISON**

Charmar Water Company  
Docket Nos. 03-0398/0399/0400/0401/0402 Consol.  
Appendix B  
Schedule 2 C

LINE NO.			CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1		Facilities Charge	\$6.25	\$15.50	\$10.25
2		Gallonge Charge (per 1,000 gallons)	\$5.10	\$7.38	\$8.35

	USAGE 1,000 GALLONS (A)	CURRENT MONTHLY BILL (B)	COMPANY PROPOSED MONTHLY BILL (C)	DOLLAR INCREASE (D)	PERCENT INCREASE (E)	STAFF PROPOSED MONTHLY BILL (F)	DOLLAR INCREASE (G)	PERCENT INCREASE (F)
3	1	\$11.35	\$22.88	\$11.53	101.59%	\$18.60	\$7.25	63.88%
4*	2	\$16.45	\$30.26	\$13.81	83.95%	\$26.95	\$10.50	63.83%
5	3	\$21.55	\$37.64	\$16.09	74.66%	\$35.30	\$13.75	63.81%
6	6	\$36.85	\$59.78	\$22.93	62.23%	\$60.35	\$23.50	63.77%
7	9	\$52.15	\$81.92	\$29.77	57.09%	\$85.40	\$33.25	63.76%

# RATE DESIGN ANALYSIS

Cherry Hill Water Company  
Docket Nos. 03-0398/0399/0400/0401/0402  
Appendix B  
Schedule 1 CH

Cherry Hill Water Company											
	Company Present			Company Proposed			% increase	Staff Proposed			% increase
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present
FACILITIES CHARGES											
5/8"	2,787	\$6.00	\$16,722	2,787	\$7.75	\$21,599	29.2%	2,787	\$6.29	\$17,530	4.8%
3/4"		\$7.00	\$0		\$9.10				\$7.36		5.1%
1"		\$8.65	\$0		\$11.25				\$9.09		
1.5"		\$12.40	\$0		\$16.10				\$13.03		5.1%
2.0"	12	\$17.15	\$206	12	\$22.50	\$270	31.2%	12	\$18.02	\$216	5.1%
3.0"		\$27.25	\$0		\$35.45				\$28.63		5.1%
4.0"		\$41.80	\$0		\$54.35				\$43.92		5.1%
SUBTOTAL			\$16,928	\$21,869			29.2%	\$17,746			4.8%
GALLONAGE CHARGES											
Metered	16961.008	\$4.24	\$71,915	16961.008	\$4.74	\$80,395	11.8%	16961.008	\$4.46	\$75,646	5.2%
SUBTOTAL FACILITIES AND GALLONAGE			\$88,842	\$102,264			15.1%	\$93,393			5.1%
OTHER REVENUE											
Late Payment Fees			\$218			\$218	0.0%			\$232	6.6%
New Customer Charge			\$120			\$120	0.0%			\$120	0.0%
Misc. Service Revenues			\$0			\$0				\$0	
Uncollectible Accounts			\$0			\$0				\$0	
Reconnection Fee			\$40			\$40	0.0%			\$40	0.0%
Non Sufficient Funds			\$14			\$14	0.0%			\$20	42.9%
OTHER REVENUES SUBTOTAL			\$392	\$392			0.0%	\$412			5.2%
TOTAL OPERATING REVENUE			\$89,234	\$102,656			15.0%	\$93,805			5.1%

**CHERRY HILL WATER COMPANY  
TYPICAL RESIDENTIAL BILL COMPARISON**

Cherry Hill Water Company  
Docket Nos. 03-0398/0399/0400/0401/0402  
Appendix B  
Schedule 2 CH

LINE NO.			CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1		FACILITIES CHARGE	\$6.00	\$7.75	\$6.29
2		GALLONAGE CHARGE (PER 1,000 GALLONS)	\$4.24	\$4.74	\$4.46

	USAGE 1,000 GALLONS (A)	CURRENT MONTHLY BILL (B)	COMPANY PROPOSED MONTHLY BILL (C)	DOLLAR INCREASE (D)	PERCENT INCREASE (E)	STAFF PROPOSED MONTHLY BILL (F)	DOLLAR INCREASE (G)	PERCENT INCREASE (F)
3	1	\$10.24	\$12.49	\$2.25	21.97%	\$10.75	\$0.51	4.98%
4*	2	\$14.48	\$17.23	\$2.75	18.99%	\$15.21	\$0.73	5.04%
5	3	\$18.72	\$21.97	\$3.25	17.36%	\$19.67	\$0.95	5.07%
6	6	\$31.44	\$36.19	\$4.75	15.11%	\$33.05	\$1.61	5.12%
7	9	\$44.16	\$50.41	\$6.25	14.15%	\$46.43	\$2.27	5.14%

**Notes:**

\* Typical monthly residential usage

# RATE DESIGN ANALYSIS

Docket Nos. 03-0398/0399/0400/0401/0402

Appendix B  
Schedule 1 NH-W

Northern Hills Water & Sewer Company											
	Company Present			Company Proposed			% increase	Staff Proposed			% increase
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present
FACILITIES CHARGES											
5/8"	2,062	\$5.00	\$10,310	2,062	\$6.25	\$12,888	25.0%	2,062	\$5.50	\$11,341	10.0%
SUBTOTAL			\$10,310			\$12,888	25.0%			\$11,341	10.0%
GALLONAGE CHARGES											
Metered	10844.549	\$2.84	\$30,799	10844.549	\$3.07	\$33,293	8.1%	10844.549	\$3.12	\$33,835	9.9%
SUBTOTAL FACILITIES AND GALLONAGE			\$41,109			\$46,180	12.3%			\$45,176	9.9%
OTHER REVENUE											
Late Payment Fees			\$50			\$50	0.0%			\$55	9.0%
New Customer Charge			\$57			\$57	0.0%			\$57	0.0%
Misc. Service Revenues			\$0			\$0				\$0	
Uncollectible Accounts			\$0			\$0				\$0	
Reconnection Fee			\$18			\$18	0.0%			\$18	0.0%
Collection Charge			\$24			\$24	0.0%			\$24	0.0%
OTHER REVENUES SUBTOTAL			\$150			\$150	0.0%			\$154	3.0%
TOTAL OPERATING REVENUE			\$41,258			\$46,330	12.3%			\$45,330	9.9%

**NORTHERN HILLS WATER & SEWER COMPANY**  
**TYPICAL RESIDENTIAL BILL COMPARISON**  
**(WATER)**

Northern Hills Water & Sewer Company  
Docket Nos. 03-0398/0399/0400/0401/0402  
Appendix B  
Schedule 2 NH-W

LINE NO.			CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1		FACILITIES CHARGE	\$5.00	\$6.25	\$5.50
2		GALLONAGE CHARGE (PER 1,000 GALLONS)	\$2.84	\$3.07	\$3.12

	USAGE 1,000 GALLONS (A)	CURRENT MONTHLY BILL (B)	COMPANY PROPOSED MONTHLY BILL (C)	DOLLAR INCREASE (D)	PERCENT INCREASE (E)	STAFF PROPOSED MONTHLY BILL (F)	DOLLAR INCREASE (G)	PERCENT INCREASE (F)
3	1	\$7.84	\$9.32	\$1.48	18.88%	\$8.62	\$0.78	9.95%
4*	2	\$10.68	\$12.39	\$1.71	16.01%	\$11.74	\$1.06	9.93%
5	3	\$13.52	\$15.46	\$1.94	14.35%	\$14.86	\$1.34	9.91%
6	6	\$22.04	\$24.67	\$2.63	11.93%	\$24.22	\$2.18	9.89%
7	9	\$30.56	\$33.88	\$3.32	10.86%	\$33.58	\$3.02	9.88%

**Notes:**

\* Typical monthly residential usage



Northern Hills Water & Sewer Company  
Docket Nos. 03-0398/0399/0400/0401/0402  
Appendix B  
Schedule 2 NH-S

SEWER RATE DESIGN ANALYSIS  
Northern Hills Sewer

	Current		Company Proposed				Staff Proposed		
	Units	Rate	Revenue	Rate	Revenue	% Increase	Rate	Revenue	% Increase
Base Rates	2,206	21.23	46,833	27.19	59,981	28.1%	25.44	56,121	19.8%
Late Payment Fees			57		57			66	
New Customer Charge			62		62			62	
Misc. Service Revenues									
Uncollectible Accounts									
Reconnection Fee			21		21			21	
Collection Charge			27		27			27	
OTHER REVENUES SUBTOTAL			167		167			176	
Total Sewer Revenues			47,167		60,315			56,472	19.7%